

TOWN OF HOLLIS, NEW HAMPSHIRE
Annual Financial Statements
For the Year Ended December 31, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	16
Proprietary Funds:	
Statement of Revenues, Expenses, and Changes in Fund Net Position	17
Statement of Cash Flows	18
Fiduciary Funds:	
Statement of Fiduciary Net Position	19
Notes to Financial Statements	20
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress	40



MELANSON HEATH & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Hollis, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hollis, New Hampshire, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Town's 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. 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 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 assess-

ments, the auditor considers internal control relevant to the Town'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 Town'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hollis, New Hampshire, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity 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 Management's Discussion and Analysis and Schedule of Funding Progress 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 evidence sufficient to express an opinion or provide any assurance.

Melanson, Heath + Company P.C.
Nashua, New Hampshire
September 12, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Hollis, New Hampshire, we offer readers this narrative overview and analysis of the financial activities of the Town for the year ended December 31, 2012.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all 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 is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent 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 and earned time off).

The government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities include general government, public safety, highways and streets, sanitation, health, welfare, culture and recreation, and conservation.

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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories; governmental funds and 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 fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable 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 impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for self-insured employee health programs. During 2011, the Town switched from being self-insured to a premium based health plan. The remaining balance in the internal service fund was transferred to the general fund in 2012.

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 much like that used for proprietary funds.

Notes to 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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current year, the total of assets exceeded liabilities by \$32,241,403 (i.e., net position), a change of \$996,439 in comparison to the prior year.

- As of the close of the current year, governmental funds reported combined ending fund balances of \$3,583,604, a change of \$1,147,313 in comparison to the prior year.
- At the end of the current year, unassigned fund balance for the general fund was \$1,648,397, a change of \$617,619 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current year was \$8,115,000, a change of \$(650,000) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior years.

NET POSITION

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Current assets	\$ 11,288,246	\$ 10,138,972
Noncurrent assets	<u>37,789,202</u>	<u>38,417,693</u>
Total assets	<u>49,077,448</u>	<u>48,556,665</u>
Current liabilities	8,432,210	8,313,214
Noncurrent liabilities	<u>8,403,835</u>	<u>8,998,487</u>
Total liabilities	<u>16,836,045</u>	<u>17,311,701</u>
Net position:		
Net investment in capital assets	28,966,350	28,938,539
Restricted	1,295,362	1,196,131
Unrestricted	<u>1,979,691</u>	<u>1,110,294</u>
Total net position	<u>\$ 32,241,403</u>	<u>\$ 31,244,964</u>

CHANGES IN NET POSITION

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues:		
Charges for services	\$ 587,225	\$ 606,770
Operating grants and contributions	126,968	152,987
Capital grants and contributions	439,779	487,752
General revenues:		
Property taxes	7,071,611	6,473,145
Licenses and permits	1,653,480	1,586,084
Penalties, interest, and other taxes	232,591	165,753
Grants and contributions not restricted to specific programs	352,643	449,815
Investment income	81,702	35,745
Miscellaneous	13,435	20,892
Permanent fund contributions	<u>2,475</u>	<u>5,325</u>
Total revenues	10,561,909	9,984,268
Expenses:		
General government	3,256,728	3,262,376
Public safety	3,143,352	3,096,846
Highways and streets	1,874,569	1,725,596
Sanitation	412,809	401,385
Health	38,793	43,133
Welfare	824	4,936
Culture and recreation	496,684	495,533
Conservation	2,433	13,294
Interest	<u>339,278</u>	<u>364,536</u>
Total expenses	<u>9,565,470</u>	<u>9,407,635</u>
Change in net position	996,439	576,633
Net position - beginning of year	<u>31,244,964</u>	<u>30,668,331</u>
Net position - end of year	<u>\$ 32,241,403</u>	<u>\$ 31,244,964</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent year, total net position were \$32,241,403, a change of \$996,439 from the prior year.

The largest portion of net position \$28,966,350 reflects our investment in capital assets (e.g., land, buildings and improvements, machinery, equipment, and furnishings, infrastructure, and construction in progress), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in 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 net position \$1,295,362 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$1,979,691 may be used to meet the Town's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$996,439. Key elements of this change are as follows:

General fund revenues and transfers in in excess of expenditures and transfers out	\$ 1,048,082
Nonmajor governmental funds revenues and transfers in in excess of expenditures and transfers out	99,231
Internal service fund operations	(1,593)
Depreciation expense in excess of principal debt service	(380,513)
Capital asset additions, net of disposals	405,309
Other	<u>(174,077)</u>
Total	\$ <u>996,439</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current year, governmental funds reported combined ending fund balances of \$3,583,604, a change of \$1,147,313 in comparison to the prior year. Key elements of this change are as follows:

General fund revenues and transfers in in excess of expenditures and transfers out	\$ 1,048,082
Nonmajor governmental funds revenues and transfers in in excess of expenditures and transfers out	<u>99,231</u>
Total	<u>\$ 1,147,313</u>

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$1,648,397 while total fund balance was \$2,288,242. 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 fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>12/31/12</u>	<u>12/31/11</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 1,648,397	\$ 1,030,778	\$ 617,619	18.0%
Total fund balance	\$ 2,288,242	\$ 1,240,160	\$ 1,048,082	25.0%

The fund balance of the general fund changed by \$1,048,082 during the current year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 264,583
Expenditures in excess of budget	279,972
Change in encumbrances	174,955
Change in reserve fund	39,084
Other GAAP adjustments	<u>289,488</u>
Total	<u>\$ 1,048,082</u>

Included in the total general fund balance is the Town's reserve account with the following balances:

	<u>12/31/12</u>	<u>12/31/11</u>	<u>Change</u>
Reserve fund	\$ <u>149,122</u>	\$ <u>110,038</u>	\$ <u>39,084</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There were no changes to the original budget during 2012.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year-end amounted to \$37,637,957 (net of accumulated depreciation), a change of \$(625,204) from the prior year. This investment in capital assets includes land, buildings and improvements, machinery, equipment, and furnishings, infrastructure, and construction in progress.

Addition information on capital assets can be found in the notes to financial statement.

Long-term debt. At the end of the current year, total bonded debt outstanding was \$8,115,000, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the notes to financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Hollis' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Finance Director
Town of Hollis, New Hampshire
7 Monument Square
Hollis, New Hampshire 03049

TOWN OF HOLLIS, NEW HAMPSHIRE

STATEMENT OF NET POSITION

DECEMBER 31, 2012

	Governmental <u>Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 9,783,684
Investments	776,387
Receivables, net of allowance for uncollectibles:	
Property taxes	654,446
Departmental and other	4,730
Intergovernmental	43,992
Due from fiduciary funds	2,769
Other assets	22,238
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	151,245
Capital assets:	
Land and construction in progress	22,651,794
Other capital assets, net of accumulated depreciation	<u>14,986,163</u>
TOTAL ASSETS	49,077,448
LIABILITIES	
Current:	
Accounts payable	196,789
Accrued expenses	169,503
Due to school districts	6,808,788
Other liabilities	229,959
Accrued interest payable	118,652
Current portion of long-term liabilities:	
Bonds payable	650,000
Compensated absences	18,438
Capital leases	240,081
Noncurrent:	
Bonds payable, net of current portion	7,465,000
Compensated absences, net of current portion	165,939
Capital leases, net of current portion	316,526
Net OPEB obligation	<u>456,370</u>
TOTAL LIABILITIES	16,836,045
NET POSITION	
Net investment in capital assets	28,966,350
Restricted for:	
Grants and other statutory restrictions	1,034,119
Permanent funds:	
Nonexpendable	250,453
Expendable	10,790
Unrestricted	<u>1,979,691</u>
TOTAL NET POSITION	<u><u>\$ 32,241,403</u></u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for	Operating	Capital	
	<u>Expenses</u>	<u>Services</u>	<u>Grants and</u> <u>Contributions</u>	<u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental Activities:					
General government	\$ 3,256,728	\$ 66,592	\$ 117,721	\$ -	\$ (3,072,415)
Public safety	3,143,352	359,788	-	-	(2,783,564)
Highways and streets	1,874,569	9,467	-	439,779	(1,425,323)
Sanitation	412,809	62,645	-	-	(350,164)
Health	38,793	1,075	-	-	(37,718)
Welfare	824	1,129	-	-	305
Culture and recreation	496,684	86,529	9,247	-	(400,908)
Conservation	2,433	-	-	-	(2,433)
Interest	<u>339,278</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(339,278)</u>
Total	<u>\$ 9,565,470</u>	<u>\$ 587,225</u>	<u>\$ 126,968</u>	<u>\$ 439,779</u>	(8,411,498)
General Revenues and Contributions:					
					7,071,611
Property taxes					1,653,480
Licenses and permits					232,591
Penalties, interest and other taxes					352,643
Grants and contributions not restricted to specific programs					81,702
Investment income					13,435
Miscellaneous					<u>2,475</u>
Permanent fund contributions					
Total general revenues and contributions					<u>9,407,937</u>
Change in Net Position					996,439
Net Position:					
Beginning of year					<u>31,244,964</u>
End of year					<u>\$ 32,241,403</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2012

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 9,274,960	\$ 508,724	\$ 9,783,684
Investments	-	776,387	776,387
Receivables:			
Property taxes	932,691	-	932,691
Departmental and other	4,730	-	4,730
Intergovernmental	43,992	-	43,992
Due from other funds	4,532	11,801	16,333
Other assets	<u>22,238</u>	<u>-</u>	<u>22,238</u>
TOTAL ASSETS	<u>\$ 10,283,143</u>	<u>\$ 1,296,912</u>	<u>\$ 11,580,055</u>
LIABILITIES			
Liabilities:			
Accounts payable	\$ 196,789	\$ -	\$ 196,789
Accrued expenses	169,503	-	169,503
Due to school districts	6,808,788	-	6,808,788
Due to other funds	12,014	1,550	13,564
Other liabilities	<u>229,959</u>	<u>-</u>	<u>229,959</u>
TOTAL LIABILITIES	7,417,053	1,550	7,418,603
DEFERRED INFLOWS OF RESOURCES	577,848	-	577,848
FUND BALANCES			
Nonspendable	22,238	613,758	635,996
Restricted	-	681,604	681,604
Committed	149,122	-	149,122
Assigned	468,485	-	468,485
Unassigned	<u>1,648,397</u>	<u>-</u>	<u>1,648,397</u>
TOTAL FUND BALANCES	<u>2,288,242</u>	<u>1,295,362</u>	<u>3,583,604</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 10,283,143</u>	<u>\$ 1,296,912</u>	<u>\$ 11,580,055</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

DECEMBER 31, 2012

Total governmental fund balances	\$ 3,583,604
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	37,637,957
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	450,848
<ul style="list-style-type: none">• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(118,652)
<ul style="list-style-type: none">• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(8,115,000)
Compensated absences	(184,377)
Capital leases	(556,607)
Net OPEB obligation	<u>(456,370)</u>
Net position of governmental activities	\$ <u>32,241,403</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 7,184,422	\$ -	\$ 7,184,422
Licenses and permits	1,653,480	-	1,653,480
Penalties, interest and other taxes	179,458	53,133	232,591
Charges for services	310,341	276,884	587,225
Intergovernmental	792,422	126,968	919,390
Investment income	8,132	73,570	81,702
Contributions	-	2,475	2,475
Miscellaneous	56,145	4,891	61,036
Total Revenues	10,184,400	537,921	10,722,321
Expenditures:			
Current:			
General government	2,938,062	4,118	2,942,180
Public safety	2,820,561	175,494	2,996,055
Highways and streets	1,587,082	-	1,587,082
Sanitation	412,809	-	412,809
Health	38,793	-	38,793
Welfare	806	18	824
Culture and recreation	45,985	382,270	428,255
Conservation	-	25,799	25,799
Debt service:			
Principal	650,000	-	650,000
Interest	348,382	-	348,382
Capital outlay	313,255	117,720	430,975
Total Expenditures	9,155,735	705,419	9,861,154
Excess (deficiency) of revenues over expenditures	1,028,665	(167,498)	861,167
Other Financing Sources (Uses):			
Proceeds of capital lease	284,553	-	284,553
Transfers in	21,341	286,477	307,818
Transfers out	(286,477)	(19,748)	(306,225)
Total Other Financing Sources (Uses)	19,417	266,729	286,146
Change in fund balance	1,048,082	99,231	1,147,313
Fund Equity, at Beginning of Year	1,240,160	1,196,131	2,436,291
Fund Equity, at End of Year	\$ 2,288,242	\$ 1,295,362	\$ 3,583,604

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

TOWN OF HOLLIS, NEW HAMPSHIRE

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

FOR THE YEAR ENDED DECEMBER 31, 2012

Net changes in fund balances - total governmental funds	\$ 1,147,313
<ul style="list-style-type: none"> 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: 	
Capital purchases	452,910
Depreciation	(1,030,513)
Loss on disposal	(47,601)
<ul style="list-style-type: none"> Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., property taxes) differ between the two statements. 	(112,811)
<ul style="list-style-type: none"> 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 effect on net position: 	
Repayments of debt	650,000
Proceeds of capital lease	(284,553)
Repayment of capital leases	287,569
<ul style="list-style-type: none"> In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	9,104
<ul style="list-style-type: none"> Some expenses reported in the Statement of Activities, such as compensated absences and net OPEB obligation, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. 	
Compensated absences	10,263
Net OPEB obligation	(83,649)
<ul style="list-style-type: none"> Internal service fund operating results 	<u>(1,593)</u>
Change in net position of governmental activities	\$ <u>996,439</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Positive (Negative)</u>
Revenues and Other Sources:				
Property taxes	\$ 6,894,934	\$ 6,894,934	\$ 6,894,934	\$ -
Licenses and permits	1,535,025	1,535,025	1,653,480	118,455
Penalties, interest and other taxes	91,000	91,000	179,458	88,458
Charges for services	285,805	285,805	310,341	24,536
Intergovernmental	775,851	775,851	792,422	16,571
Investment income	6,500	6,500	7,977	1,477
Miscellaneous	12,200	12,200	56,145	43,945
Transfers in	<u>50,200</u>	<u>50,200</u>	<u>21,341</u>	<u>(28,859)</u>
Total Revenues and Other Sources	9,651,515	9,651,515	9,916,098	264,583
Expenditures and Other Uses:				
Current:				
General government	3,129,825	3,129,825	2,971,522	158,303
Public safety	2,730,399	2,730,399	2,682,553	47,846
Highways and streets	1,509,181	1,509,181	1,494,971	14,210
Sanitation	426,805	426,805	412,809	13,996
Health	44,153	44,153	38,793	5,360
Welfare	8,900	8,900	806	8,094
Culture and recreation	38,371	38,371	51,120	(12,749)
Conservation	1	1	-	1
Debt service:				
Principal	650,000	650,000	650,000	-
Interest	349,939	349,939	348,382	1,557
Capital outlay	317,464	317,464	313,776	3,688
Transfers out	<u>446,477</u>	<u>446,477</u>	<u>406,811</u>	<u>39,666</u>
Total Expenditures and Other Uses	<u>9,651,515</u>	<u>9,651,515</u>	<u>9,371,543</u>	<u>279,972</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>544,555</u>	\$ <u>544,555</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2012

	Governmental <u>Activities</u> Internal Service <u>Fund</u>
Transfers:	
Transfers out	\$ <u>(1,593)</u>
Change in Net Position	(1,593)
Net Position at Beginning of Year	<u>1,593</u>
Net Position at End of Year	\$ <u><u>-</u></u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Governmental Activities Internal Service Fund
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfers to other funds	\$ <u>(1,593)</u>
Net Cash Used In Noncapital Financing Activities	<u>(1,593)</u>
Net Change in Cash and Short-Term Investments	(1,593)
Cash and Short-Term Investments, Beginning of Year	<u>1,593</u>
Cash and Short-Term Investments, End of Year	\$ <u><u>-</u></u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2012

	Agency Funds
ASSETS	
Cash and short-term investments	\$ 502,182
Investments	<u>329,475</u>
Total Assets	<u>\$ 831,657</u>
LIABILITIES	
Other liabilities	\$ 828,888
Due to other funds	<u>2,769</u>
Total Liabilities	<u>\$ 831,657</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

Notes to Financial Statements

1. **Summary of Significant Accounting Policies**

The accounting policies of the Town of Hollis, New Hampshire (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In 2012, it was determined that no entities met the required GASB 39 criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Internal Service Fund* reported in the accompanying financial statements, accounts for the self-insured employee health program. In 2012 the remaining balance was closed to the general fund.

The *Agency Fund* is used to account for money held by the Town on behalf of others (e.g., school capital reserve funds).

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue and permanent funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the Statement of Cash Flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments consist of corporate bonds and equities, mutual funds, and federal agency securities. Investments are carried at market value.

F. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

G. Capital Assets

Capital assets, which include land, buildings and improvements, machinery, equipment, and furnishings, infrastructure, and construction in progress, are reported in the governmental activities column in the government-wide

financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Machinery, equipment, and furnishings	5
Infrastructure	50

H. Compensated Absences

It is the Town's policy to permit employees to accumulate earned time-off benefits. All vested earned time off is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific

future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., tax deeded property or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Fund Balance Policy

The Town's fund balance policy describes the appropriate level of unassigned fund balance reserve to be consistent with the NH Department of Revenue Administration (DRA) and the Government Finance Officer Association (GFOA) guidelines:

1. DRA – Recommends retaining 5% to 10% of the gross general fund operating expenditures, including Town, School, and County appropriations. Unassigned fund balance is reported on the budgetary basis for tax rate setting purposes (see Note 16). At December 31, 2012, unassigned fund balance was 8% of general fund operating expenditures (including Town, School, and County appropriations).
2. GFOA – Recommends retaining 8% to 17% of the gross general fund operating expenditures, including Town, School, and County appropriations. At December 31, 2012, unassigned fund balance was 6% of general fund operating expenditures (including Town, School, and County appropriations).

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

The Town's budget is originally prepared by the Selectmen's Office with the cooperation of the various department heads. It is then submitted to the Budget Committee, in accordance with the Municipal Budget Law. After reviewing the budget, the Committee holds a public hearing for discussion.

The final version of the budget is then submitted for approval at the annual Town meeting. The approved budget is subsequently reported to the State of New Hampshire on the statement of appropriation form in order to establish the current property tax rate.

The Selectmen cannot increase the total of the approved budget; however, they have the power to reclassify its components when necessary.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 10,184,400	\$ 9,155,735
Other financing sources/uses (GAAP basis)	<u>305,894</u>	<u>286,477</u>
Subtotal (GAAP Basis)	10,490,294	9,442,212
Adjust tax revenue to accrual basis	(289,488)	-
Reverse 2011 appropriation carryforwards expended in 2012	-	(8,530)
Add 2012 appropriation carryforwards to expenditures	-	183,485
Reverse reserve fund activity	(155)	38,929
To reverse capital lease proceeds	<u>(284,553)</u>	<u>(284,553)</u>
Budgetary Basis	<u>\$ 9,916,098</u>	<u>\$ 9,371,543</u>

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. RSA 48:16 limits "deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus." The Town does not have a deposit policy for custodial credit risk.

As of December 31, 2012, the bank balance is categorized as follows:

Collateralized	\$ 9,165,657
Insured by FDIC	350,902
NHPDIP	<u>652,211</u>
Total Bank Balance	<u>\$ 10,168,770</u>

4. **Investments**

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Presented below is the actual rating as of year-end for each category of investments of the Town:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year-end</u>		
				<u>Aaa</u>	<u>A - A3</u>	<u>Baa - Baa3</u>
Corporate bonds	\$ 137,530	N/A	\$ -	\$ -	\$ 117,530	\$ 20,000
Corporate equities	270,069	N/A	270,069	-	-	-
Mutual funds	568,520	N/A	568,520	-	-	-
Federal agency securities	<u>129,743</u>		<u>-</u>	<u>129,743</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 1,105,862</u>		<u>\$ 838,589</u>	<u>\$ 129,743</u>	<u>\$ 117,530</u>	<u>\$ 20,000</u>

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have policies for custodial credit risk.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
Vanguard Intermediate Term Corporate Fund	\$ 60,670	5%
Federal National Mortgage	<u>107,478</u>	10%
Total	<u>\$ 168,148</u>	

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
Corporate bonds	\$ 137,530	\$ 20,000	\$ 62,910	\$ 54,620
Federal agency securities	<u>129,743</u>	<u>40,345</u>	<u>67,133</u>	<u>22,265</u>
Total	<u>\$ 267,273</u>	<u>\$ 60,345</u>	<u>\$ 130,043</u>	<u>\$ 76,885</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk.

5. Taxes Receivable

The Town bills property taxes semiannually, in May and November. Property tax revenues are recognized in the fiscal year for which taxes have been levied. Property taxes billed or collected in advance of the year for which they are levied, are recorded as a prepaid tax liability.

Property taxes are due on July 1 and December 1. Delinquent accounts are charged 12% interest. At the time of tax sale, in March of the next year, a lien is recorded on the property at the Registry of Deeds. The Town purchases all the delinquent accounts by paying the delinquent balance,

recording costs and accrued interest. The accounts that are liened by the Town will be reclassified from property taxes receivable to unredeemed tax liens receivable. After this date, delinquent accounts will be charged interest at a rate of 18%. The Town annually budgets an amount (overlay for abatements) for property tax abatements and refunds.

Taxes receivable at December 31, 2012 consist of the following:

Property taxes:	
2012 levy	\$ 739,090
Unredeemed taxes:	
2011 levy	143,924
2010 levy	92,608
2009 levy	8,224
Unapplied payments	(52,375)
Yield tax	<u>1,220</u>
Total	\$ <u>932,691</u>

The Town collects property taxes for the Hollis School District, the Hollis Brookline Co-op, and the County of Hillsborough, New Hampshire. Payments to the other taxing units are normally made throughout the year. The ultimate responsibility for the collection of taxes rests with the Town.

6. Allowance for Doubtful Accounts

The property tax receivables reported in the accompanying entity-wide financial statements reflect an estimated allowance for doubtful accounts of \$127,000.

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in 2012.

8. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the December 31, 2012 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 4,532	\$ 12,014
Nonmajor Governmental Funds	11,801	1,550
Agency Funds	-	2,769
Total	<u>\$ 16,333</u>	<u>\$ 16,333</u>

9. Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 9,690	\$ 113	\$ -	\$ 9,803
Machinery, equipment, and furnishings	5,587	327	(187)	5,727
Infrastructure	<u>13,950</u>	<u>-</u>	<u>-</u>	<u>13,950</u>
Total capital assets, being depreciated	29,227	440	(187)	29,480
Less accumulated depreciation for:				
Buildings and improvements	(4,010)	(260)	-	(4,270)
Machinery, equipment, and furnishings	(3,324)	(491)	139	(3,676)
Infrastructure	<u>(6,269)</u>	<u>(279)</u>	<u>-</u>	<u>(6,548)</u>
Total accumulated depreciation	<u>(13,603)</u>	<u>(1,030)</u>	<u>139</u>	<u>(14,494)</u>
Total capital assets, being depreciated, net	15,624	(590)	(48)	14,986
Capital assets, not being depreciated:				
Land	22,594	-	-	22,594
Construction in progress	<u>45</u>	<u>13</u>	<u>-</u>	<u>58</u>
Total capital assets, not being depreciated	<u>22,639</u>	<u>13</u>	<u>-</u>	<u>22,652</u>
Governmental activities capital assets, net	<u>\$ 38,263</u>	<u>\$ (577)</u>	<u>\$ (48)</u>	<u>\$ 37,638</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 184
Public safety	434
Highways and streets	344
Culture and recreation	<u>68</u>
Total depreciation expense - governmental activities	<u>\$ 1,030</u>

10. Accounts Payable

Accounts payable represent 2012 expenditures paid after December 31, 2012.

11. Capital Lease Obligations

The Town is the lessee of certain equipment under capital leases expiring in various years through 2017. Future minimum payments under the capital leases consisted of the following as of December 31, 2012:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 240,081	\$ 18,776	\$ 258,857
2014	184,964	10,481	195,445
2015	86,058	2,939	88,997
2016	30,193	1,044	31,237
2017	15,311	211	15,522
Total	<u>\$ 556,607</u>	<u>\$ 33,451</u>	<u>\$ 590,058</u>

12. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 12/31/12</u>
Open Space	01/15/19	3.73%	\$ 825,000
Open Space	10/15/19	3.42%	1,400,000
Open Space and Safety Renovations	08/15/35	4.06%	<u>5,890,000</u>
Total			<u>\$ 8,115,000</u>

B. Future Debt Service

The annual payments to repay bonds payable outstanding as of December 31, 2012 are as follows:

Governmental Activities	Principal	Interest	Total
2013	\$ 650,000	\$ 324,338	\$ 974,338
2014	650,000	298,538	948,538
2015	650,000	272,638	922,638
2016	650,000	247,038	897,038
2017	650,000	222,038	872,038
2018 - 2022	2,275,000	770,119	3,045,119
2023 - 2027	1,310,000	413,230	1,723,230
Thereafter	<u>1,280,000</u>	<u>246,960</u>	<u>1,526,960</u>
Total	<u>\$ 8,115,000</u>	<u>\$ 2,794,899</u>	<u>\$ 10,909,899</u>

The general fund has been designated as the sole source to repay the governmental-type general obligation long-term debt outstanding as of December 31, 2012.

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2012, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 1/1/12	Additions	Reductions	Total Balance 12/31/12	Less Current Portion	Equals Long-Term Portion 12/31/12
<u>Governmental Activities</u>						
Bonds payable	\$ 8,765	\$ -	\$ (650)	\$ 8,115	\$ (650)	\$ 7,465
Other:						
Compensated absences	194	-	(10)	184	(18)	166
Capital leases	560	285	(288)	557	(240)	317
Net OPEB obligation	<u>373</u>	<u>87</u>	<u>(4)</u>	<u>456</u>	<u>-</u>	<u>456</u>
Totals	<u>\$ 9,892</u>	<u>\$ 372</u>	<u>\$ (952)</u>	<u>\$ 9,312</u>	<u>\$ (908)</u>	<u>\$ 8,404</u>

13. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the Town of Hollis that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The deferred inflow of resources balance as of December 31, 2012 represents \$577,848 of deferred tax revenue.

14. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based in accordance with donor restrictions.

15. Fund Balances

The following is a summary of fund balances at December 31, 2012:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Nonspendable:			
Prepaid expenses	\$ 20,324	\$ -	\$ 20,324
Tax deeded property	1,914	-	1,914
Nonexpendable trust funds	-	363,305	363,305
Nonexpendable permanent funds	-	250,453	250,453
Total Nonspendable	22,238	613,758	635,996
Restricted:			
Expendable trust funds	-	92,870	92,870
Expendable permanent funds	-	10,790	10,790
Special revenue funds	-	577,944	577,944
Total Restricted	-	681,604	681,604
Committed:			
Flint Pond restoration	47,607	-	47,607
Compensated absences	40,714	-	40,714
Emergency municipal building and facility maintenance	55,222	-	55,222
Municipal transportation	5,579	-	5,579
Total Committed	149,122	-	149,122
Assigned:			
Encumbrances	183,485	-	183,485
Radio equipment upgrade	45,000	-	45,000
Subsequent year budget	240,000	-	240,000
Total Assigned	468,485	-	468,485
Unassigned:			
Remaining fund balance	1,648,397	-	1,648,397
Total Unassigned	1,648,397	-	1,648,397
Total Fund Balance	\$ 2,288,242	\$ 1,295,362	\$ 3,583,604

16. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how unassigned fund balance is reported in accordance with the budgetary basis for reporting for the State of New Hampshire for tax rate setting purposes. The major difference is the State of New Hampshire considers revenues in connection with property tax receivables to be available to liquidate liabilities when billed rather than received.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 1,648,397
Deferred revenue	<u>577,848</u>
Tax Rate Setting Balance	<u>\$ 2,226,245</u>

17. Subsequent Events

Subsequent to December 31, 2012, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Tax anticipation note	\$ 3,000,000	1.625%	02/11/13	12/31/13

This is a draw down line of credit which the Town currently has not used.

18. Commitments and Contingencies

Outstanding Legal Issues - There are certain pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

19. Retirement System

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, (as amended by GASB 50) with respect to the employees' retirement funds.

A. Plan Description

Full-time employees participate in the State of New Hampshire Retirement System (the System), a multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State of New Hampshire are eligible and required to participate in the system. Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to *Group I*. Police officers and firefighters belong to *Group II*. All assets are held in a single trust and are available to each group. Funding policies, vesting requirements, contribution requirements and plan assets available to pay benefits are disclosed in the System's annual report available from the New Hampshire Retirement System located at 54 Regional Drive, Concord, New Hampshire 03301-8507.

B. Funding Policy

Plan members are required to contribute a percentage of their gross earnings to the pension plan. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16. The Town's contribution to the System for the year ended December 31, 2012 was \$455,590, which is equal to its annual required contribution for this year.

The payroll for employees covered by the System for the year ended December 31, 2012, was \$3,179,213. In accordance with State House Bill 2, the provision in RSA 100-A:16 requiring State contributions was eliminated as of July 1, 2011. Contribution requirements for the year ended December 31, 2012, were as follows:

Town	\$ 455,590
Employees' Contributions	<u>289,208</u>
Total	<u>\$ 744,798</u>

20. **Post-Employment Health Care Benefits**

Other Post-Employment Benefits

The Town has implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment health care benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of January 1, 2012, the actuarial valuation date, 4 retirees and 55 active employees met the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, and mental health/substance abuse to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Non-union and union retirees with less than 20 years of service contribute 100% of the cost of the health plan, as determined by the Town. Union retirees with over 20 years of service pay the same as active employees. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's 2012 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially

determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending December 31, 2012, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2012.

Annual Required Contribution (ARC)	\$ 89,642
Interest on net OPEB obligation	14,909
Adjustment to ARC	<u>(17,034)</u>
Annual OPEB cost	87,517
Contributions made	<u>(3,868)</u>
Increase in net OPEB obligation	83,649
Net OPEB obligation - beginning of year	<u>372,721</u>
Net OPEB obligation - end of year	<u><u>\$ 456,370</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Year ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 87,517	4.4%	\$ 456,370
2011	\$ 137,337	5.7%	\$ 372,721
2010	\$ 129,347	3.0%	\$ 243,168
2009	\$ 121,515	3.1%	\$ 117,750

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2012, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 594,446
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 594,446</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>0%</u></u>
Covered payroll (active plan members)	<u><u>\$ 2,897,712</u></u>
UAAL as a percentage of covered payroll	<u><u>21%</u></u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included 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 schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear 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.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the 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 Town and plan members to that point. The actuarial 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.

In the January 1, 2012 actuarial valuation the entry age method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 9% which decreases to a 5% long-term rate for all healthcare benefits after four years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 29 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

21. Risk Management

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. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three years.

22. Self-Insurance

During 2011, the Town switched from being self-insured to a premium based health plan. The 2011 remaining balance in the internal service fund was closed to the general fund during 2012.

23. Implementation of New GASB Standards

The GASB has issued Statement 68 Accounting and Financial Reporting for Pensions, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Town's actuarially accrued liability.

TOWN OF HOLLIS, NEW HAMPSHIRE
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2012
(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
01/01/12	\$ -	\$ 594,446	\$ 594,446	0.0%	\$ 2,897,712	21%
01/01/09	\$ -	\$ 527,066	\$ 527,066	0.0%	\$ 2,811,308	19%

See Independent Auditors' Report.