

TOWN OF HANOVER, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2013

Town of Hanover, New Hampshire

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MELANSON HEATH & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen and Town Manager
Town of Hanover, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hanover, New Hampshire, as of and for the year ended June 30, 2013, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 Hanover, New Hampshire, as of June 30, 2013, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2014 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Melanson, Heath + Company P.C.

Manchester, New Hampshire
January 9, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Hanover, we offer readers this narrative overview and analysis of the financial activities of the Town of Hanover for the fiscal year ended June 30, 2013.

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

Both of the government-wide financial statements distinguish functions 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). The governmental activities include general government, public safety, highways and streets, sanitation, and culture and recreation. The business-type activities include water and water reclamation activities.

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 three categories: governmental funds, proprietary 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:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water and water reclamation operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and water reclamation operations, both of which are considered to be major funds.

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 own 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 fiscal year, the total of assets exceeded liabilities by \$47,792,263 (i.e., net position), a change of \$420,620 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$5,517,928, a change of \$(286,995) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,198,339, a change of \$(166,737) in comparison to the prior year.
- Bonds payable at the close of the current fiscal year was \$19,185,954, a change of \$4,115,244 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 fiscal year.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 23,595,411	\$ 26,616,727	\$ 4,848,244	\$ 3,319,253	\$ 28,443,655	\$ 29,935,980
Capital assets	<u>33,952,313</u>	<u>33,434,108</u>	<u>29,232,246</u>	<u>28,392,481</u>	<u>63,184,559</u>	<u>61,826,589</u>
Total assets	57,547,724	60,050,835	34,080,490	31,711,734	91,628,214	91,762,569
Long-term liabilities outstanding	7,543,179	7,897,174	14,565,631	9,999,506	22,108,810	17,896,680
Other liabilities	13,851,414	16,743,027	3,238,892	5,350,835	17,090,306	22,093,862
Deferred inflows	<u>4,636,835</u>	<u>4,400,384</u>	<u>-</u>	<u>-</u>	<u>4,636,835</u>	<u>4,400,384</u>
Total liabilities	26,031,428	29,040,585	17,804,523	15,350,341	43,835,951	44,390,926
Net position:						
Net investment in capital assets	29,456,290	28,931,973	13,727,047	14,265,752	43,183,337	43,197,725
Restricted	1,963,192	1,649,231	-	-	1,963,192	1,649,231
Unrestricted	<u>96,814</u>	<u>429,046</u>	<u>2,548,920</u>	<u>2,095,641</u>	<u>2,645,734</u>	<u>2,524,687</u>
Total net position	<u>\$ 31,516,296</u>	<u>\$ 31,010,250</u>	<u>\$ 16,275,967</u>	<u>\$ 16,361,393</u>	<u>\$ 47,792,263</u>	<u>\$ 47,371,643</u>

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,859,082	\$ 4,481,764	\$ 4,480,186	\$ 4,484,713	\$ 8,339,268	\$ 8,966,477
Operating grants and contributions	292,172	285,869	16,244	17,259	308,416	303,128
Capital grants and contributions	130,632	-	93,273	-	223,905	-
General revenues:						
Property taxes	10,994,849	10,818,921	-	-	10,994,849	10,818,921
Motor vehicle permit fees	1,236,128	1,204,109	-	-	1,236,128	1,204,109
Penalties and interest on taxes	260,226	230,200	-	-	260,226	230,200
Grants and contributions not restricted to specific programs	748,035	778,048	7,861	7,861	755,896	785,909
Investment income	31,231	31,573	1,465	-	32,696	31,573
Other	754,202	387,945	21,947	14,288	776,149	402,233
Total revenues	<u>18,306,557</u>	<u>18,218,429</u>	<u>4,620,976</u>	<u>4,524,121</u>	<u>22,927,533</u>	<u>22,742,550</u>
Expenses:						
General government	4,308,869	4,542,931	-	-	4,308,869	4,542,931
Public safety	7,394,928	7,252,412	-	-	7,394,928	7,252,412
Highway and streets	3,168,537	3,287,750	-	-	3,168,537	3,287,750
Sanitation	329,940	158,867	-	-	329,940	158,867
Health and human services	289,748	269,539	-	-	289,748	269,539
Culture and recreation	2,152,052	1,931,083	-	-	2,152,052	1,931,083
Interest on long-term debt	206,231	216,123	-	-	206,231	216,123
Water	-	-	1,702,169	1,599,916	1,702,169	1,599,916
Water reclamation	-	-	3,004,233	2,506,997	3,004,233	2,506,997
Total expenses	<u>17,850,305</u>	<u>17,658,705</u>	<u>4,706,402</u>	<u>4,106,913</u>	<u>22,556,707</u>	<u>21,765,618</u>
Change in net position before transfers and permanent fund contributions	456,252	559,724	(85,426)	417,208	370,826	976,932
Transfers in (out)	-	149,962	-	(149,962)	-	-
Permanent fund contributions	49,794	54,051	-	-	49,794	54,051
Change in net position	<u>506,046</u>	<u>763,737</u>	<u>(85,426)</u>	<u>267,246</u>	<u>420,620</u>	<u>1,030,983</u>
Net position - beginning of year (as restated)	<u>31,010,250</u>	<u>30,246,513</u>	<u>16,361,393</u>	<u>16,094,147</u>	<u>47,371,643</u>	<u>46,340,660</u>
Net position - end of year	<u>\$ 31,516,296</u>	<u>\$ 31,010,250</u>	<u>\$ 16,275,967</u>	<u>\$ 16,361,393</u>	<u>\$ 47,792,263</u>	<u>\$ 47,371,643</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 fiscal year, total net position was \$47,792,263, a change of \$420,620 from the prior year.

The largest portion of net position \$43,183,337 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), 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 \$1,963,192 represents resources that are subject to external restrictions on how they may be used. In theory, the remaining balance of unrestricted net position \$2,645,734, may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$506,046. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 222,077
Ambulance fund activity	(31,471)
Fire fund activity	(26,584)
Parking fund activity	(119,733)
Nonmajor fund activity	(331,284)
Depreciation, which is not budgeted or funded, over principal maturities, a budgeted expense	(1,858,046)
Capital asset additions	2,701,251
Other	<u>(50,164)</u>
Total	<u>\$ 506,046</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(85,426). Key elements of this change are as follows:

Water operations	\$ 468,575
Water reclamation operations	<u>(554,001)</u>
Total	<u>\$ (85,426)</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 fiscal year, governmental funds reported combined ending fund balances of \$5,517,928, a change of \$(286,995) in comparison to the prior year. Key elements of this change are as follows:

General fund operations	\$ 222,077
Ambulance fund activity	(31,471)
Fire fund activity	(26,584)
Parking fund activity	(119,733)
Nonmajor fund activity	<u>(331,284)</u>
Total	<u>\$ (286,995)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,198,339, while total fund balance was \$3,576,218. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 1,198,339	\$ 1,365,076	\$ (166,737)	10.2%
Total fund balance	\$ 3,576,218	\$ 3,354,141	\$ 222,077	30.6%

The total fund balance of the general fund changed by \$222,077 during the current fiscal year. Key factors in this change are as follows:

Revenues less than budget	\$ (223,984)
Expenditures less than budget	311,940
Expenditures of current year encumbrance over prior year encumbrance	61,563
Change in capital reserves	182,470
Other timing issues	<u>(109,912)</u>
Total	<u>\$ 222,077</u>

Included in the total general fund balance are the Town's capital reserve accounts with the following balances:

	<u>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>
Capital reserves	\$ <u>1,691,957</u>	\$ <u>1,509,487</u>	\$ <u>182,470</u>
Total	\$ <u><u>1,691,957</u></u>	\$ <u><u>1,509,487</u></u>	\$ <u><u>182,470</u></u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$2,548,920.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There were no differences between the original budget and the final budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$63,184,559 (net of accumulated depreciation), a change of \$1,357,970 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

Governmental Activities:

44 Lebanon Street	\$	601,839
Hayes Park/Enta Library	\$	343,542
2013 Caterpillar Grader	\$	285,300
VHF Simulcast Radio System	\$	272,040

Business-type Activities:

Water Meter System	\$	692,931
Wastewater Treatment Plant Upgrade	\$	1,262,722

Additional information on capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$19,185,954, 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 the Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Hanover's 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:

Director of Administrative Services
Town of Hanover
P.O. Box 483
Hanover, New Hampshire 03755
(603) 640-3203

TOWN OF HANOVER, NEW HAMPSHIRE

STATEMENT OF NET POSITION

JUNE 30, 2013

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 16,071,137	\$ 2,316,740	\$ 18,387,877
Receivables, net of allowance for uncollectibles:			
Property taxes	7,112,487	-	7,112,487
User fees	143,238	967,164	1,110,402
Intergovernmental	-	436,591	436,591
Other assets	104,229	1,127,749	1,231,978
Noncurrent:			
Property taxes	164,320	-	164,320
Capital Assets:			
Land and construction in progress	5,050,922	1,083,513	6,134,435
Other assets, net of accumulated depreciation	<u>28,901,391</u>	<u>28,148,733</u>	<u>57,050,124</u>
TOTAL ASSETS	57,547,724	34,080,490	91,628,214
LIABILITIES			
Current:			
Accounts payable	766,426	139,388	905,814
Accrued liabilities	96,109	481,734	577,843
Internal balances	(1,496,181)	1,496,315	134
Due to other governments	13,930,435	-	13,930,435
Current portion of long-term liabilities:			
Bonds payable	230,000	1,038,985	1,268,985
Notes payable	100,000	-	100,000
Other liabilities	224,625	82,470	307,095
Noncurrent:			
Bonds payable, net of current portion	4,100,000	13,816,969	17,916,969
Notes payable, net of current portion	1,000,000	-	1,000,000
OPEB liability	862,308	62,238	924,546
Other liabilities, net of current portion	1,580,871	686,424	2,267,295
DEFERRED INFLOWS OF RESOURCES	<u>4,636,835</u>	<u>-</u>	<u>4,636,835</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	26,031,428	17,804,523	43,835,951
NET POSITION			
Net investment in capital assets	29,456,290	13,727,047	43,183,337
Restricted for:			
Grants and other statutory restrictions	1,596,475	-	1,596,475
Permanent funds:			
Nonexpendable	232,698	-	232,698
Expendable	134,019	-	134,019
Unrestricted	<u>96,814</u>	<u>2,548,920</u>	<u>2,645,734</u>
TOTAL NET POSITION	\$ <u>31,516,296</u>	\$ <u>16,275,967</u>	\$ <u>47,792,263</u>

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

TOWN OF HANOVER, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 4,308,869	\$ 457,971	\$ 172,302	\$ -	\$ (3,678,596)	\$ -	\$ (3,678,596)
Public safety	7,394,928	2,806,127	68,976	-	(4,519,825)	-	(4,519,825)
Highway and streets	3,168,537	19,197	12,420	130,632	(3,006,288)	-	(3,006,288)
Sanitation	329,940	14,058	-	-	(315,882)	-	(315,882)
Health and human services	289,748	6,525	500	-	(282,723)	-	(282,723)
Culture and recreation	2,152,052	555,204	37,974	-	(1,558,874)	-	(1,558,874)
Interest	206,231	-	-	-	(206,231)	-	(206,231)
Total Governmental Activities	17,850,305	3,859,082	292,172	130,632	(13,568,419)	-	(13,568,419)
Business-Type Activities:							
Water operations	1,702,169	2,047,923	-	93,273	-	439,027	439,027
Water reclamation operations	3,004,233	2,432,263	16,244	-	-	(555,726)	(555,726)
Total Business-Type Activities	4,706,402	4,480,186	16,244	93,273	-	(116,699)	(116,699)
Total	\$ 22,556,707	\$ 8,339,268	\$ 308,416	\$ 223,905	(13,568,419)	(116,699)	(13,685,118)
General Revenues and Permanent Fund Contributions:							
Property taxes					10,994,849	-	10,994,849
Motor vehicle permit fees					1,236,128	-	1,236,128
Penalties, interest, and other taxes					260,226	-	260,226
Grants and contributions not restricted to specific programs					748,035	7,861	755,896
Investment income					31,231	1,465	32,696
Miscellaneous					754,202	21,947	776,149
Permanent fund contributions					49,794	-	49,794
Total general revenues and contributions					14,074,465	31,273	14,105,738
Change in Net Position					506,046	(85,426)	420,620
Net Position:							
Beginning of year, as restated					31,010,250	16,361,393	47,371,643
End of year					\$ 31,516,296	\$ 16,275,967	\$ 47,792,263

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

TOWN OF HANOVER, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2013

	<u>General</u>	<u>Ambulance Fund</u>	<u>Fire Fund</u>	<u>Parking Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and short-term investments	\$ 15,341,951	\$ -	\$ -	\$ -	\$ 729,186	\$ 16,071,137
Receivables:						
Property taxes	7,295,452	-	-	-	-	7,295,452
User fees	52,620	82,895	6,917	806	-	143,238
Due from other funds	6,845,276	4,045,801	4,035,339	629,438	447,211	16,003,065
Other assets	<u>31,029</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,029</u>
TOTAL ASSETS	<u>\$ 29,566,328</u>	<u>\$ 4,128,696</u>	<u>\$ 4,042,256</u>	<u>\$ 630,244</u>	<u>\$ 1,176,397</u>	<u>\$ 39,543,921</u>
LIABILITIES						
Accounts payable	\$ 379,641	\$ 11,099	\$ 7,235	\$ 7,306	\$ 361,145	\$ 766,426
Accrued liabilities	-	-	-	-	1,292	1,292
Due to other governments	13,875,437	-	-	-	-	13,875,437
Tax refunds payable	49,500	-	-	-	-	49,500
Due to other funds	6,920,005	4,010,339	3,536,440	-	40,100	14,506,884
Deposits held in custody	-	-	-	-	4,659	4,659
Other liabilities	<u>839</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>839</u>
TOTAL LIABILITIES	21,225,422	4,021,438	3,543,675	7,306	407,196	29,205,037
DEFERRED INFLOWS OF RESOURCES	4,764,688	-	-	54,255	2,013	4,820,956
FUND BALANCES						
Nonspendable	28,647	-	-	-	236,020	264,667
Restricted	-	104,258	477,616	568,683	546,441	1,696,998
Committed	1,902,422	-	-	-	226,441	2,128,863
Assigned	446,810	3,000	20,965	-	3,000	473,775
Unassigned	<u>1,198,339</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(244,714)</u>	<u>953,625</u>
TOTAL FUND BALANCES	<u>3,576,218</u>	<u>107,258</u>	<u>498,581</u>	<u>568,683</u>	<u>767,188</u>	<u>5,517,928</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 29,566,328</u>	<u>\$ 4,128,696</u>	<u>\$ 4,042,256</u>	<u>\$ 630,244</u>	<u>\$ 1,176,397</u>	<u>\$ 39,543,921</u>

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

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

JUNE 30, 2013

Total governmental fund balances	\$ 5,517,928
• Investment in Trescott Company is not a financial resource and, therefore, is not reported in the funds.	73,200
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	33,952,313
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	165,476
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(94,817)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(8,097,804)</u>
Net position of governmental activities	<u><u>\$ 31,516,296</u></u>

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

TOWN OF HANOVER, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Ambulance Fund</u>	<u>Fire Fund</u>	<u>Parking Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Property taxes	\$ 8,261,242	\$ -	\$ 2,688,932	\$ 86,903	\$ -	\$ 11,037,077
Penalties, interest, and other taxes	236,718	-	23,508	-	-	260,226
Charges for services	1,220,079	660,854	111,041	1,457,239	229,299	3,678,512
Intergovernmental	772,421	-	61,221	-	337,197	1,170,839
Licenses and permits	1,478,723	-	-	-	-	1,478,723
Investment income	27,442	-	-	-	3,789	31,231
Miscellaneous	96,954	-	-	-	657,109	754,063
Contributions	24,291	-	139	-	25,503	49,933
Total Revenues	<u>12,117,870</u>	<u>660,854</u>	<u>2,884,841</u>	<u>1,544,142</u>	<u>1,252,897</u>	<u>18,460,604</u>
Expenditures:						
Current:						
General government	4,379,110	-	-	-	905,607	5,284,717
Public safety	2,071,991	647,552	2,880,425	1,323,372	432,644	7,355,984
Highway and streets	2,810,548	-	-	-	-	2,810,548
Sanitation	161,690	-	-	-	180,656	342,346
Health and human services	289,748	-	-	-	-	289,748
Culture and recreation	1,760,336	-	-	-	358,804	2,119,140
Conservation	8,378	-	-	-	1,021	9,399
Debt service	210,446	-	-	325,271	-	535,717
Total Expenditures	<u>11,692,247</u>	<u>647,552</u>	<u>2,880,425</u>	<u>1,648,643</u>	<u>1,878,732</u>	<u>18,747,599</u>
Excess (deficiency) of revenues over expenditures	425,623	13,302	4,416	(104,501)	(625,835)	(286,995)
Other Financing Sources (Uses):						
Transfers in	581,558	5,987	25,000	63,650	357,937	1,034,132
Transfers out	(785,104)	(50,760)	(56,000)	(78,882)	(63,386)	(1,034,132)
Total Other Financing Sources (Uses)	<u>(203,546)</u>	<u>(44,773)</u>	<u>(31,000)</u>	<u>(15,232)</u>	<u>294,551</u>	<u>-</u>
Change in fund balance	222,077	(31,471)	(26,584)	(119,733)	(331,284)	(286,995)
Fund Equity, at Beginning of Year, as restated	<u>3,354,141</u>	<u>138,729</u>	<u>525,165</u>	<u>688,416</u>	<u>1,098,472</u>	<u>5,804,923</u>
Fund Equity, at End of Year	<u>\$ 3,576,218</u>	<u>\$ 107,258</u>	<u>\$ 498,581</u>	<u>\$ 568,683</u>	<u>\$ 767,188</u>	<u>\$ 5,517,928</u>

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

TOWN OF HANOVER, 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 JUNE 30, 2013

Net changes in fund balances - total governmental funds	\$ (286,995)						
<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: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Capital outlay purchases, net</td> <td style="text-align: right;">2,701,251</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation</td> <td style="text-align: right;">(2,183,046)</td> </tr> </table> 		Capital outlay purchases, net	2,701,251	Depreciation	(2,183,046)		
Capital outlay purchases, net	2,701,251						
Depreciation	(2,183,046)						
<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, etc.) differ between the two statements. This amount represents the net change in deferred revenue. (104,253) 							
<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: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Repayments of debt on bonds payable</td> <td style="text-align: right;">225,000</td> </tr> <tr> <td style="padding-left: 20px;">Repayments of debt on notes payable</td> <td style="text-align: right;">100,000</td> </tr> <tr> <td style="padding-left: 20px;">Repayments of debt on capital leases</td> <td style="text-align: right;">68,585</td> </tr> </table> 		Repayments of debt on bonds payable	225,000	Repayments of debt on notes payable	100,000	Repayments of debt on capital leases	68,585
Repayments of debt on bonds payable	225,000						
Repayments of debt on notes payable	100,000						
Repayments of debt on capital leases	68,585						
<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. 4,486 							
<ul style="list-style-type: none"> • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. (18,982) 							
Change in net position of governmental activities	<u>\$ 506,046</u>						

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

TOWN OF HANOVER, NEW HAMPSHIRE

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 8,371,154	\$ 8,371,154	\$ 8,371,154	\$ -
Penalties, interest, and other taxes	188,990	188,990	236,718	47,728
Charges for services	1,212,983	1,212,983	1,220,079	7,096
Intergovernmental	753,962	753,962	772,421	18,459
Licenses and permits	1,754,163	1,754,163	1,478,723	(275,440)
Investment income	70,000	70,000	26,096	(43,904)
Miscellaneous	59,763	59,763	96,954	37,191
Contributions	16,500	16,500	24,291	7,791
Transfers in	431,580	431,580	408,675	(22,905)
Total Revenues and Other Sources	12,859,095	12,859,095	12,635,111	(223,984)
Expenditures and Other Uses:				
General government	4,605,941	4,605,941	4,419,641	186,300
Public safety	2,066,099	2,066,099	2,045,295	20,804
Highway and streets	3,009,114	3,009,114	2,857,700	151,414
Sanitation	167,085	167,085	161,690	5,395
Health and human services	304,272	304,272	289,748	14,524
Culture and recreation	1,760,948	1,760,948	1,757,412	3,536
Conservation	9,300	9,300	8,378	922
Debt service	210,446	210,446	210,446	-
Capital outlay	2,650	2,650	3,500	(850)
Transfers out	723,240	723,240	793,345	(70,105)
Total Expenditures and Other Uses	12,859,095	12,859,095	12,547,155	311,940
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 87,956	\$ 87,956

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

TOWN OF HANOVER, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2013

	Business-Type Activities Enterprise Funds		
	Water	Water	Total
	<u>Fund</u>	<u>Reclamation Fund</u>	
ASSETS			
Current:			
Cash and short-term investments	\$ 158,290	\$ 2,158,450	\$ 2,316,740
Due from other funds	1,578,361	2,251,219	3,829,580
User fees, net of allowance for uncollectibles	819,626	147,538	967,164
Intergovernmental receivables	-	436,591	436,591
Other assets	<u>784,444</u>	<u>343,305</u>	<u>1,127,749</u>
Total current assets	3,340,721	5,337,103	8,677,824
Noncurrent:			
Capital Assets:			
Land and construction in progress	843,804	239,709	1,083,513
Other assets, net of accumulated depreciation	<u>10,330,042</u>	<u>17,818,691</u>	<u>28,148,733</u>
Total noncurrent assets	<u>11,173,846</u>	<u>18,058,400</u>	<u>29,232,246</u>
TOTAL ASSETS	14,514,567	23,395,503	37,910,070
LIABILITIES			
Current:			
Accounts payable	60,469	78,919	139,388
Accrued liabilities	270,224	211,510	481,734
Due to other funds	2,277,682	3,048,213	5,325,895
Current portion of long-term liabilities:			
Bonds payable	605,875	433,110	1,038,985
Other liabilities	<u>69,886</u>	<u>12,584</u>	<u>82,470</u>
Total current liabilities	3,284,136	3,784,336	7,068,472
Noncurrent:			
Bonds payable, net of current portion	6,949,790	6,867,179	13,816,969
OPEB liability	38,687	23,551	62,238
Other liabilities, net of current portion	<u>628,416</u>	<u>58,008</u>	<u>686,424</u>
Total noncurrent liabilities	<u>7,616,893</u>	<u>6,948,738</u>	<u>14,565,631</u>
TOTAL LIABILITIES	10,901,029	10,733,074	21,634,103
NET POSITION			
Net investment in capital assets	2,994,252	10,732,795	13,727,047
Unrestricted	<u>619,286</u>	<u>1,929,634</u>	<u>2,548,920</u>
TOTAL NET POSITION	<u>\$ 3,613,538</u>	<u>\$ 12,662,429</u>	<u>\$ 16,275,967</u>

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

TOWN OF HANOVER, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities Enterprise Funds		
	Water	Water	Total
	<u>Fund</u>	<u>Reclamation Fund</u>	
Operating Revenues:			
Charges for services	\$ 2,047,923	\$ 2,432,263	\$ 4,480,186
Other	<u>21,602</u>	<u>345</u>	<u>21,947</u>
Total Operating Revenues	2,069,525	2,432,608	4,502,133
Operating Expenses:			
Operating expenses	1,122,068	1,647,572	2,769,640
Depreciation	<u>298,852</u>	<u>1,035,262</u>	<u>1,334,114</u>
Total Operating Expenses	<u>1,420,920</u>	<u>2,682,834</u>	<u>4,103,754</u>
Operating Income (Loss)	648,605	(250,226)	398,379
Nonoperating Revenues (Expenses):			
Intergovernmental revenue	101,134	16,244	117,378
Investment income	85	1,380	1,465
Interest expense	<u>(281,249)</u>	<u>(321,399)</u>	<u>(602,648)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(180,030)</u>	<u>(303,775)</u>	<u>(483,805)</u>
Change in Net Position	468,575	(554,001)	(85,426)
Net Position at Beginning of Year, as restated	<u>3,144,963</u>	<u>13,216,430</u>	<u>16,361,393</u>
Net Position at End of Year	\$ <u><u>3,613,538</u></u>	\$ <u><u>12,662,429</u></u>	\$ <u><u>16,275,967</u></u>

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

TOWN OF HANOVER, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities Enterprise Funds		
	Water Fund	Water Reclamation Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 1,596,766	\$ 2,786,147	\$ 4,382,913
Payments to vendors and employees	<u>(1,867,639)</u>	<u>(1,995,311)</u>	<u>(3,862,950)</u>
Net Cash Provided By (Used For) Operating Activities	(270,873)	790,836	519,963
<u>Cash Flows From Noncapital Financing Activities:</u>			
Intergovernmental revenue	-	45,351	45,351
Interfund borrowing	<u>1,350,088</u>	<u>1,076,644</u>	<u>2,426,732</u>
Net Cash (Used For) Noncapital Financing Activities	1,350,088	1,121,995	2,472,083
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	(888,997)	(1,284,882)	(2,173,879)
Principal payments on bonds and leases	(665,949)	(181,733)	(847,682)
Capital lease proceeds	700,996	-	700,996
Interest expense	(281,249)	(157,904)	(439,153)
Intergovernmental revenue	<u>101,134</u>	<u>-</u>	<u>101,134</u>
Net Cash (Used For) Capital and Related Financing Activities	(1,034,065)	(1,624,519)	(2,658,584)
<u>Cash Flows From Investing Activities:</u>			
Investment income	<u>85</u>	<u>1,380</u>	<u>1,465</u>
Net Cash (Used For) Investing Activities	85	1,380	1,465
Net Change in Cash and Short-Term Investments	45,235	289,692	334,927
Cash and Short-Term Investments, Beginning of Year	<u>113,055</u>	<u>1,868,758</u>	<u>1,981,813</u>
Cash and Short-Term Investments, End of Year	<u>\$ 158,290</u>	<u>\$ 2,158,450</u>	<u>\$ 2,316,740</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating income (loss)	\$ 648,605	\$ (250,226)	\$ 398,379
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	298,852	1,035,262	1,334,114
Changes in assets and liabilities:			
User fees	(472,759)	353,539	(119,220)
Other assets	(760,646)	(343,305)	(1,103,951)
Accounts payable	29,766	9,863	39,629
Compensated absences	(18,410)	(15,096)	(33,506)
OPEB liability	<u>3,719</u>	<u>799</u>	<u>4,518</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ (270,873)</u>	<u>\$ 790,836</u>	<u>\$ 519,963</u>

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

TOWN OF HANOVER, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ -	\$ 324,056
Investments	71,449	1,497,685
Due from other funds	<u>-</u>	<u>134</u>
Total Assets	71,449	1,821,875
 <u>LIABILITIES AND NET POSITION</u>		
Accounts payable	-	32,868
Due to other governments	-	1,494,376
Other liabilities	<u>-</u>	<u>294,631</u>
Total Liabilities	<u>-</u>	<u>1,821,875</u>
 <u>NET POSITION</u>		
Total net position held in trust	<u>\$ 71,449</u>	<u>\$ -</u>

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

TOWN OF HANOVER, NEW HAMPSHIRE
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Private Purpose Trust Funds</u>
Additions:	
Miscellaneous revenue	\$ <u>22,112</u>
Total additions	22,112
Deductions:	
Other	<u>19,194</u>
Total deductions	<u>19,194</u>
Net increase	2,918
Net position:	
Beginning of year	<u>68,531</u>
End of year	<u><u>\$ 71,449</u></u>

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

TOWN OF HANOVER, NEW HAMPSHIRE

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Hanover, 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 fiscal year 2013, it was determined that no entities met the required 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. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (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 govern-

mental funds and major individual enterprise 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 government'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 *ambulance fund* accounts for the activities associated with the Town's ambulance service operations and is primarily funded through user charges.
- The *fire fund* accounts for the activities associated with the Town's fire department operations and is primarily funded through taxation.
- The *parking fund* accounts for the activities associated with the Town's parking department operations and is primarily funded through meter and permit fees and parking fines.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

- The *Water Fund* accounts for services relating to water activities.
- The *Water Reclamation Fund* accounts for services relating to waste water activities.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

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 fiduciary 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 for the Trust Funds consist of marketable securities, bonds and short-term money market investments. 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 fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans).

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$10,000 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 of business-type activities 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
Land and Building improvements	12 - 20
Infrastructure	10 - 50
Vehicles	5
Furniture, fixtures, and equipment	5 - 15
Computer equipment	4 - 20

H. Compensated Absences

It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund 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, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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/deferred inflows. 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., inventory 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., the 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. This account also includes fund balance voted to be used in the subsequent fiscal year.
- 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/deferred inflows. 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. 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 Town Manager with the cooperation of the various department heads. It is then submitted to the Budget Committee, in accordance with the Municipal Budget Law. The Town Manager then presents the proposed budget to the Selectmen and the advisory Finance Committee.

After reviewing the budget, the Selectmen hold a series of public hearings 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.

Formal budgetary reporting and integration is employed as a management control device during the year for the General Fund.

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 after all reserve fund transfers and supplemental appropriations.

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)	\$ 12,117,870	\$ 11,692,247
Other financing sources/uses (GAAP basis)	<u>581,558</u>	<u>785,104</u>
Subtotal (GAAP Basis)	12,699,428	12,477,351
Adjust tax revenue to accrual basis	109,912	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(265,247)
Add end-of-year appropriation carryforwards from expenditures	-	326,810
To eliminate capital reserve activity	<u>(174,229)</u>	<u>8,241</u>
Budgetary basis	<u>\$ 12,635,111</u>	<u>\$ 12,547,155</u>

D. Deficit Fund Equity

The following funds reflected deficit balances as of June 30, 2013:

Capital Project Fund:	
Hayes Park/Etna Library	\$ (14,674)
VHF Simulcast Radio System	<u>(230,040)</u>
	\$ <u><u>(244,714)</u></u>

3. **Cash and Short-Term Investments**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of a 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.

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, exception that a Town with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2013, \$19,836 of the Town's bank balance of \$19,072,670 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

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 investment 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>Aa</u>	<u>Not Rated</u>
Mutual funds	\$ <u>1,569,134</u>	N/A	\$ <u>1,569,134</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Total investments	\$ <u>1,569,134</u>		\$ <u>1,569,134</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</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.

The Town’s investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the Town’s brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

C. Concentration of Credit Risk

The Town does not have an investment in one issuer greater than 5% of total investments.

D. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. Although the Town has an investment policy, it does not address foreign currency risk.

5. Taxes Receivable

The Town bills property taxes semi-annually, in May and November. Property tax revenues are recognized in the fiscal year for which taxes have been levied. Property taxes are due on July 1 and December 1. Delinquent accounts are charged 12% interest. In March of the next year, a lien is recorded on delinquent 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 amounts (overlay for abatements) for property tax abatements and refunds.

Taxes receivable at June 30, 2013 consist of the following:

Real Estate		
2013		\$ 7,067,856
Tax Increment Financing		43,475
Timber Tax		1,156
Unredeemed Taxes		
2012	91,490	
2011	57,574	
2010	<u>33,901</u>	
		<u>182,965</u>
Total		\$ <u>7,295,452</u>

Taxes Collected for Others

The Town collects property taxes for the State of New Hampshire, the Dresden School District, the Hanover School District, and the County of Grafton. 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 receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts:

	<u>Governmental</u>
Property taxes	\$ 18,645

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2013.

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 June 30, 2013 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 6,845,276	\$ 6,920,005
Ambulance Fund	4,045,801	4,010,339
Fire Fund	4,035,339	3,536,440
Parking Fund	629,438	-
Non Major Funds:		
Special Revenue Funds	119,520	-
Capital Project Funds	327,691	-
Permanent Trust Funds	-	40,100
Business Type Activities:		
Enterprise Funds		
Water	1,578,361	2,277,682
Water Reclamation	2,251,219	3,048,213
Agency Funds	<u>134</u>	<u>-</u>
Total	<u>\$ 19,832,779</u>	<u>\$ 19,832,779</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 12,296,507	\$ 551,086	\$ -	\$ 12,847,593
Machinery, equipment, and furnishings	2,349,456	206,856	(119,113)	2,437,199
Vehicles	4,927,811	356,042	(445,861)	4,837,992
Infrastructure	<u>46,707,249</u>	<u>713,591</u>	<u>-</u>	<u>47,420,840</u>
Total capital assets, being depreciated	66,281,023	1,827,575	(564,974)	67,543,624
Less accumulated depreciation for:				
Buildings and improvements	(4,359,690)	(315,386)	-	(4,675,076)
Machinery, equipment, and furnishings	(1,491,328)	(151,726)	119,113	(1,523,941)
Vehicles	(3,174,841)	(420,242)	445,861	(3,149,222)
Infrastructure	<u>(27,998,302)</u>	<u>(1,295,692)</u>	<u>-</u>	<u>(29,293,994)</u>
Total accumulated depreciation	<u>(37,024,161)</u>	<u>(2,183,046)</u>	<u>564,974</u>	<u>(38,642,233)</u>
Total capital assets, being depreciated, net	29,256,862	(355,471)	-	28,901,391
Capital assets, not being depreciated:				
Land	4,158,657	252,254	-	4,410,911
Construction in progress	<u>18,589</u>	<u>621,422</u>	<u>-</u>	<u>640,011</u>
Total capital assets, not being depreciated	<u>4,177,246</u>	<u>873,676</u>	<u>-</u>	<u>5,050,922</u>
Governmental activities capital assets, net	<u>\$ 33,434,108</u>	<u>\$ 518,205</u>	<u>\$ -</u>	<u>\$ 33,952,313</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 12,960,984	\$ 31,700	\$ -	\$ 12,992,684
Machinery, equipment, and furnishings	9,570,157	1,357,779	-	10,927,936
Vehicles	280,297	-	-	280,297
Infrastructure	<u>11,699,565</u>	<u>143,369</u>	<u>-</u>	<u>11,842,934</u>
Total capital assets, being depreciated	34,511,003	1,532,848	-	36,043,851
Less accumulated depreciation for:				
Buildings and improvements	(2,760,664)	(488,133)	-	(3,248,797)
Machinery, equipment, and furnishings	(405,303)	(588,416)	-	(993,719)
Vehicles	(185,086)	(19,777)	-	(204,863)
Infrastructure	<u>(3,209,951)</u>	<u>(237,788)</u>	<u>-</u>	<u>(3,447,739)</u>
Total accumulated depreciation	<u>(6,561,004)</u>	<u>(1,334,114)</u>	<u>-</u>	<u>(7,895,118)</u>
Total capital assets, being depreciated, net	27,949,999	198,734	-	28,148,733
Capital assets, not being depreciated:				
Land	390,582	-	-	390,582
Construction in progress	<u>51,900</u>	<u>692,931</u>	<u>(51,900)</u>	<u>692,931</u>
Total capital assets, not being depreciated	<u>442,482</u>	<u>692,931</u>	<u>(51,900)</u>	<u>1,083,513</u>
Business-type activities capital assets, net	<u>\$ 28,392,481</u>	<u>\$ 891,665</u>	<u>\$ (51,900)</u>	<u>\$ 29,232,246</u>

Depreciation expense was charged to functions of the Town of Hanover, New Hampshire as follows:

Governmental Activities:	
General government	\$ 59,616
Public safety	521,241
Highway and streets	1,536,499
Culture and recreation	<u>65,690</u>
Total depreciation expense - governmental activities	<u>\$ 2,183,046</u>
Business-Type Activities:	
Water	\$ 298,852
Water reclamation	<u>1,035,262</u>
Total depreciation expense - business-type activities	<u>\$ 1,334,114</u>

10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent 2013 expenditures paid after June 30, 2013.

11. Due to Other Governments

This balance represents property taxes due to the Dresden School District and County of Grafton.

12. Capital Lease Obligations

The Town is the lessee of certain equipment under capital and operating leases expiring in various years through 2024. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2013:

<u>Governmental</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2014	\$ 65,263	\$ 25,889
2015	52,397	14,751
2016	42,236	8,181
2017	-	584
Total minimum lease payments	159,896	49,405
Less amounts representing interest	12,146	-
Present Value of Minimum Lease Payments	\$ <u>147,750</u>	\$ <u>49,405</u>

<u>Business-Type</u>	<u>Capital Leases</u>
2014	\$ 87,847
2015	87,848
2016	87,848
2017	78,609
2018	78,609
2019-2024	<u>314,436</u>
Total minimum lease payments	735,197
Less amounts representing interest	<u>85,952</u>
Present Value of Minimum Lease Payments	\$ <u>649,245</u>

13. 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 currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/13
<u>Governmental Activities:</u>			
1999 Parking Facility	01/15/29	4.00-4.90%	\$ 3,580,000
2003 Community Center	01/15/23	4.25-4.90%	750,000
Total Governmental Activities:			<u>\$ 4,330,000</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/13
<u>Business-Type Activities:</u>			
2008 SRF Loan - Sewer	12/01/27	3.49%	\$ 2,222,965
Building Renovation - Water Treatment	07/15/15	3.60%	247,500
SRF Loan - Water	02/01/22	2.22%	2,270,269
SRF Loan - Water	10/01/27	3.35%	5,037,896
SRF Loan - Water Pollution	08/01/26	2.91%	842,324
SRF Loan - Water Pollution	07/01/27	2.55%	4,235,000
Total Business-Type Activities:			<u>\$ 14,855,954</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2013 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 230,000	\$ 206,872	\$ 436,872
2015	235,000	196,708	431,708
2016	245,000	186,124	431,124
2017	250,000	174,962	424,962
2018	260,000	163,274	423,274
2019 - 2023	1,450,000	703,056	2,153,056
2024 - 2028	1,350,000	199,430	1,549,430
Thereafter	310,000	15,190	325,190
Total	<u>\$ 4,330,000</u>	<u>\$ 1,845,616</u>	<u>\$ 6,175,616</u>

The following governmental funds have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2013:

General fund	\$ 750,000
Special revenue fund	<u>3,580,000</u>
Total	<u>\$ 4,330,000</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,038,985	\$ 274,553	\$ 1,313,538
2015	1,064,026	251,640	1,315,666
2016	1,007,390	228,984	1,236,374
2017	1,006,602	208,796	1,215,398
2018	1,034,193	188,333	1,222,526
2019 - 2023	5,126,534	615,622	5,742,156
2024 - 2028	4,526,104	198,286	4,724,390
Thereafter	52,120	214	52,334
Total	\$ <u>14,855,954</u>	\$ <u>1,966,428</u>	\$ <u>16,822,382</u>

C. Notes Payable

The Town issued a note with the Dresden School District as part of an option to have the first right of refusal over the Hanover High School Property. Notes payable outstanding is as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/13</u>
Dresden Hanover High Property Option	08/10/23	0.00%	\$ <u>1,100,000</u>
Total Governmental Activities:			\$ <u>1,100,000</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2013, the following changes occurred in long-term liabilities:

	<u>Total Balance 7/1/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/13</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/13</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 4,555,000	\$ -	\$ (225,000)	\$ 4,330,000	\$ (230,000)	\$ 4,100,000
Notes payable	1,200,000	-	(100,000)	1,100,000	(100,000)	1,000,000
OPEB liability	684,579	177,729	-	862,308	-	862,308
Other:						
Accrued employee benefits	1,816,493	-	(158,747)	1,657,746	(165,775)	1,491,971
Capital lease payable	216,335	-	(68,585)	147,750	(58,850)	88,900
Totals	\$ <u>8,472,407</u>	\$ <u>177,729</u>	\$ <u>(552,332)</u>	\$ <u>8,097,804</u>	\$ <u>(554,625)</u>	\$ <u>7,543,179</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 10,515,710	\$ 5,102,817	\$ (762,573)	\$ 14,855,954	\$ (1,038,985)	\$ 13,816,969
OPEB liability	57,720	4,518	-	62,238	-	62,238
Other:						
SRF loan proceeds	5,103,162	-	(5,103,162)	-	-	-
Accrued employee benefits	153,155	-	(33,506)	119,649	(11,965)	107,684
Capital lease payable	33,013	700,996	(84,764)	649,245	(70,505)	578,740
Totals	\$ <u>15,862,760</u>	\$ <u>5,808,331</u>	\$ <u>(5,984,005)</u>	\$ <u>15,687,086</u>	\$ <u>(1,121,455)</u>	\$ <u>14,565,631</u>

14. Deferred Inflows of Resources

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

The following is a summary of deferred inflow of resources balances as of June 30, 2013:

	<u>Governmental Activities</u>		
Prepaid taxes	\$	29,066	
Taxes collected in advance		4,490,013	
Prepaid revenues		<u>117,756</u>	
Total	\$	<u>4,636,835</u>	

	<u>Governmental Funds</u>		
	<u>General Fund</u>	<u>Parking Fund</u>	<u>Housing Fund</u>
Prepaid taxes	\$	29,066	\$ -
Taxes collected in advance		4,490,013	-
Deferred revenue		184,121	-
Prepaid revenues		<u>61,488</u>	<u>54,255</u>
Total	\$	<u>4,764,688</u>	\$ <u>2,013</u>

15. 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 on donor restrictions.

16. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town has implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2013:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing special article appropriations approved at Town Meeting, capital reserve funds set aside by Town Meeting vote (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2013:

	Non Spendable	Restricted	Committed	Assigned	Unassigned	Total
General Fund						
Reserve for:						
Encumbrance	\$ -	\$ -	\$ -	\$ 326,810	\$ -	\$ 326,810
Prepays	28,647	-	-	-	-	28,647
Expenditures	-	-	210,465	120,000	-	330,465
Capital Reserve	-	-	1,691,957	-	-	1,691,957
Undesignated	-	-	-	-	1,198,339	1,198,339
sub total	<u>28,647</u>	<u>-</u>	<u>1,902,422</u>	<u>446,810</u>	<u>1,198,339</u>	<u>3,576,218</u>
Major						
Ambulance Fund	-	104,258	-	3,000	-	107,258
Fire Fund	-	477,616	-	20,965	-	498,581
Parking Fund	-	568,683	-	-	-	568,683
sub total	<u>-</u>	<u>1,150,557</u>	<u>-</u>	<u>23,965</u>	<u>-</u>	<u>1,174,522</u>
Non Major						
Special Revenue	-	418,953	-	3,000	-	421,953
Capital Projects	-	-	226,441	-	(244,714)	(18,273)
Permanent Funds	236,020	127,488	-	-	-	363,508
sub total	<u>236,020</u>	<u>546,441</u>	<u>226,441</u>	<u>3,000</u>	<u>(244,714)</u>	<u>767,188</u>
Grand Total	<u>\$ 264,667</u>	<u>\$ 1,696,998</u>	<u>\$ 2,128,863</u>	<u>\$ 473,775</u>	<u>\$ 953,625</u>	<u>\$ 5,517,928</u>

17. 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	\$ 1,198,339
Deferred revenue	194,586
Allowance	(164,670)
Reserve for special purposes	(123,540)
Other GAAP adjustments	<u>321,054</u>
Tax Rate Setting balance	<u>\$ 1,425,769</u>

18. **Commitments and Contingencies**

Outstanding Legal Issues - There are several 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. **Post-Employment Healthcare and Life Insurance Benefits**

Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, 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

The Town provides its eligible retirees, including in some cases their beneficiaries (as governed by RSA 100-A:50), the ability to purchase health, dental, and prescription insurance at the Town's group rates. Although the Town does not supplement the cost of these plans, GASB Statement 45 requires the Town to recognize the liability for the inclusion of any implicit rate subsidies afforded its retirees. This subsidy is generated as a result of the basic nature of insurance - one risk group subsidizes another to arrive at a blended premium, therefore current employees who are young and healthy subsidized the older retirees. As of June 30, 2013, there were 71 retiree subscribers, including eligible spouses and dependents, and 119 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse, and life insurance 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

Retirees contribute 100% of the cost of the health plan, as determined by the Town. 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 fiscal 2013 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 June 30, 2013, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2011.

Annual Required Contribution (ARC)	\$ 345,590
Interest on net OPEB obligation	22,402
Adjustment to ARC	<u>(23,200)</u>
Annual OPEB cost	344,792
Contributions made	<u>(162,545)</u>
Increase in net OPEB obligation	182,247
Net OPEB obligation - beginning of year	<u>742,299</u>
Net OPEB obligation - end of year	<u><u>\$ 924,546</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:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 344,792	47%	\$ 924,546
2012	\$ 344,792	47%	\$ 742,299
2011	\$ 243,396	23%	\$ 560,052

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2011, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 3,831,948
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,831,948</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 9,114,124</u>
UAAL as a percentage of covered payroll	<u>42%</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 the 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 July 1, 2011 actuarial valuation the projected unit credit cost 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 ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 2.5%.

20. 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 03301-8509.

B. Funding Policy

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 7% for employees and 9.3% for police and fire. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and is 19.95% for police, 22.89% for fire, and 8.80% for all other covered employees. The Town's contributions to the System for the years ended June 30, 2013, 2012, and 2011 were \$1,075,067, \$1,106,453 and \$891,825, respectively, which were equal to its annual required contributions for each of these years.

The payroll for employees covered by the System for the year ended June 30, 2013, was \$7,806,993.

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 fiscal years.

22. Beginning Net Position Restatement

The beginning (July 1, 2012) net assets of the Town have been restated as follows:

Government-Wide Financial Statements:

	<u>Governmental</u>	<u>Business-Type</u>
As previously reported	\$ 31,272,760	\$ 16,098,883
Adjust for prior year water capital reserves reclassified to water fund	(113,055)	113,055
Adjust for prior year sewer capital reserves reclassified to sewer fund	<u>(149,455)</u>	<u>149,455</u>
As restated	<u>\$ 31,010,250</u>	<u>\$ 16,361,393</u>

Fund Basis Financial Statements:

	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
As previously reported	\$ 3,616,651	\$ 3,031,908	\$ 13,066,975
Adjust for prior year water capital reserves reclassified to water fund	(113,055)	113,055	-
Adjust for prior year sewer capital reserves reclassified to sewer fund	<u>(149,455)</u>	<u>-</u>	<u>149,455</u>
As restated	<u>\$ 3,354,141</u>	<u>\$ 3,144,963</u>	<u>\$ 13,216,430</u>

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 New Hampshire Retirement System's actuarially accrued liability.

**TOWN OF HANOVER, NEW HAMPSHIRE
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2013
(Unaudited)**

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/11	\$ -	\$3,831,948	\$3,831,948	0.0%	\$9,114,124	42.0%
07/01/08	\$ -	\$2,092,115	\$2,092,115	0.0%	\$7,373,216	28.4%

See Independent Auditors' Report.