

TOWN OF HOLLIS, NEW HAMPSHIRE
Annual Financial Statements
For the Year Ended December 31, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Hollis, New Hampshire

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, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Hollis' management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hollis, as of December 31, 2008, and the respective changes in financial position 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.

The management's discussion and analysis, appearing on the following pages, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of

Additional Offices:

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America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
June 24, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Hollis, we offer readers this narrative overview and analysis of the financial activities of the Town of Hollis for the fiscal year ended December 31, 2008.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to 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 the 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 assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

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

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, economic development, and culture and recreation.

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.

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. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Notes to the financial statements. The notes provide additional information that are 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 the *Governmental Accounting Standards Board*.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 30,312,351 (i.e., net assets), a change of \$ 234,321 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 2,710,269, a change of \$ (1,135,197) in comparison with the prior year.

- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 370,209, a change of \$ (397,118) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 10,720,000, a change of \$ (655,000) 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 fiscal years. All amounts are presented in thousands.

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 11,939	\$ 10,981
Capital assets	<u>38,033</u>	<u>37,264</u>
Total assets	49,972	48,245
Long-term liabilities outstanding	10,233	10,878
Other liabilities	<u>9,427</u>	<u>7,289</u>
Total liabilities	19,660	18,167
Net assets:		
Invested in capital assets, net	27,314	25,889
Restricted	284	358
Unrestricted	<u>2,714</u>	<u>3,831</u>
Total net assets	\$ <u>30,312</u>	\$ <u>30,078</u>

CHANGES IN NET ASSETS

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
Revenues:		
Program revenues:		
Charges for services	\$ 2,205	\$ 2,181
Operating grants and contributions	40	56
Capital grants and contributions	199	186

(continued)

(continued)

General revenues:		
Property taxes	25,604	24,643
Penalties and interest on taxes	125	155
Grants and contributions not restricted to specific programs	390	371
Investment income	(39)	332
Gain (loss) on disposition of asset	(38)	(41)
Miscellaneous	<u>53</u>	<u>19</u>
Total revenues	<u>28,539</u>	<u>27,902</u>
Expenses:		
General government	1,527	2,510
Public safety	3,004	2,712
Education	10	16
Public works	2,551	1,905
Health human services	55	53
Culture recreation	460	536
Interest expense	442	298
Intergovernmental	<u>20,260</u>	<u>19,469</u>
Total expenses	<u>28,309</u>	<u>27,499</u>
Change in net assets before permanent fund contributions	230	403
Permanent fund contributions	<u>4</u>	<u>7</u>
Change in net assets	234	410
Net assets - beginning of year	<u>30,078</u>	<u>29,668</u>
Net assets - end of year	\$ <u>30,312</u>	\$ <u>30,078</u>

As noted earlier, net assets 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 assets were \$ 30,312,351, a change of \$ 234,321 from the prior year.

The largest portion of net assets \$ 27,313,492 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), 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 assets \$ 284,400 represents resources that are subject to external restrictions on how they may be used. The remaining balance

of unrestricted net assets \$ 2,714,459 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 assets of \$ 234,321. Key elements of this change are as follows:

	<u>Government Wide Governmental Activities</u>
General fund operating results	\$(656,386)
Nonmajor funds deficit	(478,811)
Internal service fund surplus	44,396
Excess depreciation over principal maturities, a budgeted expense	(337,456)
Capital assets additions	1,800,667
Other GAAP accruals	(138,089)
Total	\$ <u>234,321</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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 2,710,269, a change of \$ (1,135,197) in comparison with the prior year. Key elements of this change are as follows:

	<u>Fund Balance Governmental Funds</u>
General fund operating results	\$ (656,386)
Nonmajor funds deficit	(478,811)
Total	\$ <u>(1,135,197)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 370,209, while total fund balance was \$ 450,738. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 1.2 percent of total general fund expenditures, while total fund balance represents 1.5 percent of that same amount.

The fund balance of the general fund changed by \$ 656,386 during the current fiscal year. Key factors in this change are as follows:

	<u>Fund Balance General Fund</u>
Revenue shortfalls	\$ (159,149)
Budgetary appropriation turnbacks by departments	96,284
Tax collection in excess of budget	149,747
Excess of prior year encumbrances spent in the current year over current year encumbrances to be spent in the subsequent year	(131,268)
Use of fund balance	(837,000)
Other timing issues	<u>225,000</u>
Total	\$ <u>(656,386)</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

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

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year-end amounted to \$ 38,033,492 (net of accumulated depreciation), a change of \$ 769,871 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 10,720,000, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the 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 ASSETS

DECEMBER 31, 2008

	Governmental <u>Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 10,116,667
Investments	874,015
Receivables, net of allowance for uncollectibles:	
Property taxes	704,604
Departmental and other	27,767
Due from other governments	37,736
Prepaid expenses	3,425
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	174,641
Capital assets:	
Land and construction in progress	25,829,258
Other capital assets, net of accumulated depreciation	<u>12,204,234</u>
TOTAL ASSETS	49,972,347
LIABILITIES	
Current:	
Accounts payable	189,202
Accrued liabilities	219,840
Accrued expenses	164,556
Due to school districts	8,019,174
Other current liabilities	159,975
Current portion of long-term liabilities:	
Bonds payable	655,000
Other liabilities	18,725
Noncurrent:	
Bonds payable, net of current portion	10,065,000
Compensated absences	<u>168,524</u>
TOTAL LIABILITIES	19,659,996
NET ASSETS	
Invested in capital assets, net of related debt	27,313,492
Restricted for:	
Permanent funds:	
Nonexpendable	274,850
Expendable	9,550
Unrestricted	<u>2,714,459</u>
TOTAL NET ASSETS	\$ <u><u>30,312,351</u></u>

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	
Governmental Activities:					
General government	\$ 1,526,964	\$ 1,678,514	\$ -	\$ -	\$ 151,550
Public safety	3,003,579	353,501	45	-	(2,650,033)
Education	9,603	-	-	-	(9,603)
Public works	2,551,527	87,990	-	199,125	(2,264,412)
Health and human services	55,510	7,381	-	-	(48,129)
Culture and recreation	459,556	77,580	39,825	-	(342,151)
Interest expense	442,295	-	-	-	(442,295)
Intergovernmental	<u>20,259,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,259,825)</u>
Total	<u>\$ 28,308,859</u>	<u>\$ 2,204,966</u>	<u>\$ 39,870</u>	<u>\$ 199,125</u>	(25,864,898)
		General Revenues and Contributions:			
					25,604,148
					125,464
					390,184
					(39,156)
					(38,340)
					53,025
					<u>3,894</u>
					26,099,219
					234,321
		Net Assets:			
					<u>30,078,030</u>
					<u>\$ 30,312,351</u>

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

FOR THE YEAR ENDED DECEMBER 31, 2008

ASSETS	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 8,614,149	\$ 1,386,602	\$ 10,000,751
Investments	-	874,015	874,015
Receivables:			
Property taxes	1,069,469	-	1,069,469
Departmental and other	-	51,648	51,648
Due from other governments	37,736	-	37,736
Other assets	<u>3,425</u>	<u>-</u>	<u>3,425</u>
TOTAL ASSETS	<u>\$ 9,724,779</u>	<u>\$ 2,312,265</u>	<u>\$ 12,037,044</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 188,116	\$ 1,086	\$ 189,202
Accrued expenses	164,556	-	164,556
Deferred revenues	742,220	51,648	793,868
Due to school districts	8,019,174	-	8,019,174
Other liabilities	<u>159,975</u>	<u>-</u>	<u>159,975</u>
TOTAL LIABILITIES	9,274,041	52,734	9,326,775
Fund Balances:			
Reserved for:			
Encumbrances	80,529	-	80,529
Perpetual (nonexpendable) permanent funds	-	274,850	274,850
Unreserved:			
Undesignated, reported in:			
General fund	370,209	-	370,209
Special revenue funds	-	1,975,131	1,975,131
Permanent funds	<u>-</u>	<u>9,550</u>	<u>9,550</u>
TOTAL FUND BALANCES	<u>450,738</u>	<u>2,259,531</u>	<u>2,710,269</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,724,779</u>	<u>\$ 2,312,265</u>	<u>\$ 12,037,044</u>

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

DECEMBER 31, 2008

Total governmental fund balances	\$ 2,710,269
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	38,033,492
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	579,763
<ul style="list-style-type: none">• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	50,132
<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.	(154,056)
<ul style="list-style-type: none">• 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>(10,907,249)</u>
Net assets of governmental activities	<u><u>\$ 30,312,351</u></u>

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 25,664,317	\$ 32,945	\$ 25,697,262
Penalties, interest and other taxes	125,463	-	125,463
Charges for services	-	265,824	265,824
Intergovernmental	588,764	40,416	629,180
Departmental	304,163	-	304,163
Licenses and permits	1,637,409	-	1,637,409
Investment income	117,825	(156,981)	(39,156)
Contributions	-	3,894	3,894
Miscellaneous	8,629	-	8,629
Total Revenues	<u>28,446,570</u>	<u>186,098</u>	<u>28,632,668</u>
Expenditures:			
Current:			
General government	2,670,356	-	2,670,356
Public safety	2,617,360	224,843	2,842,203
Education	-	9,603	9,603
Public works	2,021,937	2,292	2,024,229
Health and human services	55,487	23	55,510
Culture and recreation	39,241	400,933	440,174
Debt service	1,104,578	-	1,104,578
Intergovernmental	20,259,825	-	20,259,825
Capital outlay	300,930	60,457	361,387
Total Expenditures	<u>29,069,714</u>	<u>698,151</u>	<u>29,767,865</u>
Excess (deficiency) of revenues over expenditures	(623,144)	(512,053)	(1,135,197)
Other Financing Sources (Uses):			
Transfers in	307,358	343,144	650,502
Transfers out	(340,600)	(309,902)	(650,502)
Total Other Financing Sources (Uses)	<u>(33,242)</u>	<u>33,242</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(656,386)	(478,811)	(1,135,197)
Fund Equity, at Beginning of Year	<u>1,107,124</u>	<u>2,738,342</u>	<u>3,845,466</u>
Fund Equity, at End of Year	<u>\$ 450,738</u>	<u>\$ 2,259,531</u>	<u>\$ 2,710,269</u>

See notes to 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, 2008

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (1,135,197)
<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 outlay purchases	1,800,667
Depreciation	(992,456)
Loss on disposal	(38,340)
<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., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. 	
	(95,543)
<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 assets: 	
Repayments of debt	655,000
<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. 	
	7,282
<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. 	
	(11,488)
<ul style="list-style-type: none"> • Internal service fund operating results 	44,396
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>234,321</u>

See notes to 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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 25,514,570	\$ 25,514,570	\$ 25,514,570	\$ -
Penalties, interest and other taxes	135,700	135,700	125,463	(10,237)
Intergovernmental	717,964	717,964	588,764	(129,200)
Departmental	187,000	187,000	304,163	117,163
Licenses and permits	1,680,025	1,680,025	1,637,409	(42,616)
Investment income	120,000	120,000	117,825	(2,175)
Miscellaneous	97,957	97,957	8,629	(89,328)
Transfers in	47,013	47,013	44,257	(2,756)
Other sources	837,000	837,000	837,000	-
Total Revenues and Other Sources	29,337,229	29,337,229	29,178,080	(159,149)
Expenditures and Other Uses:				
General government	1,905,921	1,889,092	1,808,471	80,621
Public safety	2,597,908	2,597,908	2,596,484	1,424
Public works	2,079,213	2,096,042	2,091,784	4,258
Health and human services	62,194	62,194	55,487	6,707
Culture and recreation	41,799	41,799	39,241	2,558
Debt service	1,104,578	1,104,578	1,104,578	-
Assessments	20,259,825	20,259,825	20,259,825	-
Transfers out	1,065,791	1,065,791	1,065,090	701
Capital outlay	220,000	220,000	219,985	15
Total Expenditures and Other Uses	29,337,229	29,337,229	29,240,945	96,284
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (62,865)	\$ (62,865)

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2008

	Governmental Activities Internal Service Funds
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ <u>115,916</u>
TOTAL ASSETS	115,916
<u>LIABILITIES</u>	
Current:	
Accrued liabilities	<u>65,784</u>
TOTAL LIABILITIES	65,784
<u>NET ASSETS</u>	
Unrestricted	<u>50,132</u>
TOTAL NET ASSETS	\$ <u><u>50,132</u></u>

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2008

	Governmental <u>Activities</u> Internal Service <u>Fund</u>
Operating Revenues:	
Employee and employer contributions	\$ <u>797,074</u>
Total Operating Revenues	797,074
Operating Expenses:	
Employee benefits	<u>752,678</u>
Total Operating Expenses	<u>752,678</u>
Operating Income (Loss)	<u>44,396</u>
Change in Net Assets	44,396
Net Assets at Beginning of Year	<u>5,736</u>
Net Assets at End of Year	\$ <u><u>50,132</u></u>

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	Governmental Activities Internal Service Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from employees and employer	\$ 797,074
Payments of employee benefits and expenses	<u>(713,924)</u>
Net Cash (Used For) Operating Activities	<u>83,150</u>
Net Change in Cash and Short-Term Investments	83,150
Cash and Short-Term Investments, Beginning of Year	<u>32,766</u>
Cash and Short-Term Investments, End of Year	<u>\$ 115,916</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income (loss)	\$ 44,396
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Changes in assets and liabilities:	
Accrued liabilities	<u>38,754</u>
Net Cash (Used For) Operating Activities	<u>\$ 83,150</u>

See notes to 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 (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 government 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 2008, 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 assets and the statement of changes in net assets) 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 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 and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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 are the 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 and excises.

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 government 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 government 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 *internal service fund* reported in the accompanying financial statements, accounts for the self-insured employee health program.

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 is 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) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

G. Capital Assets

Capital assets, which include property, plant and equipment are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government 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.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	50
Vehicles	5
Office equipment	5
Computer equipment	5

H. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation benefits. All vested sick and vacation pay 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 governmental activities.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 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 after all 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 with 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)	\$ 28,446,570	\$ 29,069,714
Other financing sources/uses (GAAP basis)	<u>307,358</u>	<u>340,600</u>
Subtotal (GAAP Basis)	28,753,928	29,410,314
To adjust property tax revenue to the budgetary basis	(149,747)	-
To reverse expenditures of prior year appropriation carryforwards	-	(339,797)
To book current year appropriation carryforwards	-	208,529
To record use of free cash	837,000	-
Other timing issues	<u>(263,101)</u>	<u>(38,101)</u>
Budgetary basis	\$ <u>29,178,080</u>	\$ <u>29,240,945</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, exception that a city 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 December 31, 2008, \$ 0 of the Town's bank balance of \$ 10,290,012 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 (in thousands):

<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</u>
Corporate bonds	\$ 15	N/A	\$ -	\$ -	\$ 15
Corporate equities	185	N/A	185	-	-
Mutual funds	434	N/A	434	-	-
Federal agency securities	<u>240</u>	N/A	<u>-</u>	<u>240</u>	<u>-</u>
Total investments	\$ <u>874</u>		\$ <u>619</u>	\$ <u>240</u>	\$ <u>15</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>Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
Federal Home Loan	\$ 86,513	9.9%
Federal National Mortgage	\$ 153,581	17.6%

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>Investment Maturities (in Years)</u>			
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
Corporate bonds	\$ 15	\$ 15	\$ -	\$ -
Federal agency securities	<u>240</u>	<u>20</u>	<u>152</u>	<u>68</u>
Total	\$ <u>255</u>	\$ <u>35</u>	\$ <u>152</u>	\$ <u>68</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. Property 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, 2008 consist of the following:

Property taxes:	
2008 levy	\$ 891,452
Unredeemed taxes:	
2007 levy	129,384
2006 levy	45,256
Unapplied payments	(24,123)
Land use change	<u>27,500</u>
Total taxes receivable	\$ <u>1,069,469</u>

Taxes Collected for Others

The Town collects property taxes for the Hollis School District, the Hollis Brookline Co-op, and the County of Hillsborough. 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	\$ 190,224
Other	23,881

7. Due From Other Governments

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in 2008.

8. Capital Assets

Capital asset activity for the year ended December 31, 2008 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	\$ 4,842	\$ 40	\$ -	\$ 4,882
Machinery, equipment, and furnishings	4,467	1,015	(165)	5,317
Infrastructure	<u>13,600</u>	<u>350</u>	<u>-</u>	<u>13,950</u>
Total capital assets, being depreciated	22,909	1,405	(165)	24,149
Less accumulated depreciation for:				
Buildings and improvements	(3,302)	(91)	-	(3,393)
Machinery, equipment, and furnishings	(2,764)	(299)	126	(2,937)
Infrastructure	<u>(5,013)</u>	<u>(602)</u>	<u>-</u>	<u>(5,615)</u>
Total accumulated depreciation	<u>(11,079)</u>	<u>(992)</u>	<u>126</u>	<u>(11,945)</u>
Total capital assets, being depreciated, net	11,830	413	(39)	12,204
Capital assets, not being depreciated:				
Land	21,575	395	-	21,970
Construction in progress	<u>3,859</u>	<u>-</u>	<u>-</u>	<u>3,859</u>
Total capital assets, not being depreciated	<u>25,434</u>	<u>395</u>	<u>-</u>	<u>25,829</u>
Governmental activities capital assets, net	\$ <u>37,264</u>	\$ <u>808</u>	\$(<u>39</u>)	\$ <u>38,033</u>

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

Governmental Activities:	
General government	\$ 40
Public safety	201
Public works	691
Culture and recreation	<u>60</u>
Total depreciation expense - governmental activities	\$ <u>992</u>

9. Accounts Payable

Accounts payable represent 2008 expenditures paid after December 31, 2008.

10. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all December 31, 2008 receivable balances, except property taxes that are accrued for subsequent 60-day collections.

11. 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>	Serial Maturities <u>Through</u>	Interest Rate(s)%	Amount Outstanding as of <u>12/31/08</u>
Open Space	01/15/19	3.73%	\$ 1,310,000
Open Space	10/15/19	3.42%	2,200,000
Open Space & Safety Renovations	08/15/35	4.06%	<u>7,210,000</u>
Total Governmental Activities:			\$ <u>10,720,000</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of December 31, 2008 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 655,000	\$ 425,377	\$ 1,080,377
2010	650,000	400,477	1,050,477
2011	650,000	375,537	1,025,537
2012	650,000	349,937	999,937
2013	650,000	324,338	974,338
2014 - 2018	3,245,000	1,236,857	4,481,857
2019 - 2023	1,960,000	681,362	2,641,362
2024 - 2028	1,140,000	360,020	1,500,020
2029 - 2033	800,000	171,680	971,680
Thereafter	<u>320,000</u>	<u>20,640</u>	<u>340,640</u>
Total	\$ <u>10,720,000</u>	\$ <u>4,346,225</u>	\$ <u>15,066,225</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, 2008:

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2008, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>1/1/08</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>12/31/08</u>	Less Current <u>Portion</u>	Equals Long-Term Portion <u>12/31/08</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 11,375	\$ -	\$ (655)	\$ 10,720	\$ (655)	\$ 10,065
Other:						
Compensated absences	<u>176</u>	<u>11</u>	<u>-</u>	<u>187</u>	<u>(19)</u>	<u>168</u>
Totals	\$ <u>11,551</u>	\$ <u>11</u>	\$ <u>(655)</u>	\$ <u>10,907</u>	\$ <u>(674)</u>	\$ <u>10,233</u>

12. Restricted Net Assets

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

Permanent fund restricted net assets are 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.

13. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at December 31, 2008:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

14. Commitments and Contingencies

Outstanding Lawsuits - There are certain pending lawsuits 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.

15. Risk Management

The government 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 government 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.

16. Self Insurance

The Town self insures against claims for employees’ health coverage. Annual estimated requirements for claims are provided in the Town’s annual operating budget.

Health Insurance

The Town contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the Town is liable for claims up to \$ 30,000 per individual. The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end.

Changes in the aggregate liability for claims for the year ended December 31, 2008 are as follows:

	<u>Health Coverage</u>
Claims liability, January 1, 2008	\$ 27,030
Claims incurred/recognized in fiscal year 2008	740,587
Claims paid in fiscal year 2008	<u>(701,833)</u>
Claims liability, December 31, 2008	\$ <u>65,784</u>