

TOWN OF HOLLIS, NEW HAMPSHIRE
Annual Financial Statements
For the Year Ended December 31, 2010

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	16
Proprietary Funds:	
Statement of Net Assets	17
Statement of Revenues, Expenses and Changes in Fund Net Assets	18
Statement of Cash Flows	19
Fiduciary Funds:	
Statement of Net Assets	20
Notes to Financial Statements	21
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress	38



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

102 Perimeter Road
Nashua, NH 03063-1301
Tel (603) 882-1111 • Fax (603) 882-9456
www.melansonheath.com

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, 2010, 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, New Hampshire, as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis appearing on the following pages, and the supplementary information on page 38, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited

Additional Offices:

Andover, MA • Greenfield, MA • Ellsworth, ME • Manchester, NH

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
September 22, 2011

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, 2010.

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 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. These services have been included within governmental activities in the government-wide financial statements.

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 \$ 30,964,268 (i.e., net assets), a change of \$ 1,281,821 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 2,879,576, a change of \$ 397,858 in comparison to the prior year.

- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 486,346, a change of \$ 331,316 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 9,415,000, a change of \$ (650,000) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 13,177	\$ 10,981
Capital assets	<u>38,031</u>	<u>38,160</u>
Total assets	51,208	49,141
Long-term liabilities outstanding	10,655	10,494
Other liabilities	<u>9,589</u>	<u>8,965</u>
Total liabilities	20,244	19,459
Net assets:		
Invested in capital assets, net	28,615	28,095
Restricted	330	303
Unrestricted	<u>2,019</u>	<u>1,284</u>
Total net assets	<u>\$ 30,964</u>	<u>\$ 29,682</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Revenues:		
Program revenues		
Charges for services	\$ 2,134	\$ 2,133
Operating grants and contributions	47	74
Capital grants and contributions	239	340
General revenues:		
Property taxes	7,048	5,984
Penalties and interest on taxes	170	162
Grants and contributions not restricted to specific programs	337	342
Investment income	97	144
Miscellaneous	<u>31</u>	<u>40</u>
Total revenues	10,103	9,219

(continued)

(continued)

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Expenses:		
General government	2,770	2,748
Public safety	2,647	2,571
Education	4	5
Public works	2,299	2,351
Health and human services	58	49
Culture and recreation	464	545
Interest expense	391	418
Employee benefits	186	167
Total expenses	<u>8,819</u>	<u>8,854</u>
Change in net assets before transfers	1,284	365
Transfers in (out)	(7)	(9)
Permanent fund contributions	<u>5</u>	<u>3</u>
Increase in net assets	1,282	359
Net assets - beginning of year, as restated	<u>29,682</u>	<u>29,323</u>
Net assets - end of year	<u>\$ 30,964</u>	<u>\$ 29,682</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 \$ 30,964,268, a change of \$ 1,281,821 from the prior year.

The largest portion of net assets \$ 28,615,511 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 \$ 329,961 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 2,018,796 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 \$ 1,281,821. Key elements of this change are as follows:

	<u>Government-Wide Governmental Activities</u>
General fund operating results	\$ 421,273
Nonmajor funds surplus - accrual basis	36,023
Internal service fund operating results	(60,124)
Excess depreciation over principal maturities, a budgeted expense	(275,886)
Other GAAP accruals	<u>1,160,535</u>
Total	<u>\$ 1,281,821</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 \$ 2,879,576, a change of \$ 397,858 in comparison to the prior year. Key elements of this change are as follows:

	<u>Fund Balance Governmental Funds</u>
General fund operating results	\$ 421,273
Nonmajor funds deficit	<u>(23,415)</u>
Total	<u>\$ 397,858</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 \$ 486,346, while total fund balance was \$ 840,632. 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 5.6 percent of total general fund expenditures, while total fund balance represents 9.6 percent of that same amount.

The fund balance of the general fund changed by \$ 421,273 during the current fiscal year. Key factors in this change are as follows:

	<u>Fund Balance</u> <u>General Fund</u>
Revenue shortfalls	\$ (250,002)
Budgetary appropriation turnbacks by departments	413,635
Tax collection in excess of budget	40,271
Excess of current year encumbrances to be spent in the subsequent year over prior encumbrances spent in the current year	217,957
Other timing issues	<u>(588)</u>
Total	<u>\$ 421,273</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

The differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ (240,655) due to the disallowance by the New Hampshire Department of Revenue Administration (DRA) because the amount appropriated at the annual town meeting exceeded the total amount recommended by the budget committee by more than 10%.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year-end amounted to \$ 38,030,511 (net of accumulated depreciation), a change of \$ (336,317) from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- Town Hall roof repair \$ 263,000
- Ambulance \$ 137,000

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 9,415,000, 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 notes 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, 2010

	Governmental <u>Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 10,758,530
Investments	1,004,034
Receivables, net of allowance for uncollectibles:	
Property taxes	920,334
Departmental and other	32,261
Intergovernmental	43,736
Prepaid expenses	8,833
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	409,557
Capital assets:	
Land and construction in progress	22,210,530
Other capital assets, net of accumulated depreciation	<u>15,819,981</u>
TOTAL ASSETS	51,207,796
LIABILITIES	
Current:	
Accounts payable	292,135
Accrued liabilities	374,999
Due to school districts	8,759,150
Other current liabilities	162,609
Current portion of long-term liabilities:	
Bonds payable	650,000
Compensated absences	22,098
Capital leases	215,865
Noncurrent:	
Bonds payable, net of current portion	8,765,000
Compensated absences, net of current portion	198,881
Capital leases, net of current portion	559,623
Other post-employment benefits	<u>243,168</u>
TOTAL LIABILITIES	20,243,528
NET ASSETS	
Invested in capital assets, net of related debt	28,615,511
Restricted for:	
Permanent funds:	
Nonexpendable	307,835
Expendable	22,126
Unrestricted	<u>2,018,796</u>
TOTAL NET ASSETS	\$ <u><u>30,964,268</u></u>

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

		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	\$ 2,769,933	\$ 1,599,738	\$ -	\$ -	\$ (1,170,195)
Public safety	2,646,732	396,954	42	-	(2,249,736)
Education	3,496	-	-	-	(3,496)
Public works	2,299,396	93,371	-	239,084	(1,966,941)
Health and human services	57,897	1,245	-	-	(56,652)
Culture and recreation	464,447	43,198	46,573	-	(374,676)
Interest expense	391,269	-	-	-	(391,269)
Employee benefits	185,758	-	-	-	(185,758)
	<u>\$ 8,818,928</u>	<u>\$ 2,134,506</u>	<u>\$ 46,615</u>	<u>\$ 239,084</u>	<u>(6,398,723)</u>
		General Revenues, Transfers, and Contributions:			
					7,047,978
					170,072
					336,917
					96,975
					30,898
					(6,796)
					4,500
					<u>7,680,544</u>
					1,281,821
		Net Assets:			
					29,682,447
					<u>\$ 30,964,268</u>

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

December 31, 2010

ASSETS	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash and short-term investments	\$ 9,722,029	\$ 1,034,910	\$ 10,756,939
Investments	-	1,004,034	1,004,034
Receivables:			
Property taxes	1,357,114	-	1,357,114
Departmental and other	-	49,363	49,363
Intergovernmental	43,736	-	43,736
Other assets	<u>8,833</u>	<u>-</u>	<u>8,833</u>
TOTAL ASSETS	\$ <u>11,131,712</u>	\$ <u>2,088,307</u>	\$ <u>13,220,019</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 292,136	\$ -	\$ 292,136
Accrued expenses	177,131	-	177,131
Deferred revenues	900,055	49,363	949,418
Due to school districts	8,759,150	-	8,759,150
Other liabilities	<u>162,608</u>	<u>-</u>	<u>162,608</u>
TOTAL LIABILITIES	10,291,080	49,363	10,340,443
Fund Balances:			
Reserved for:			
Encumbrances	354,286	-	354,286
Perpetual (nonexpendable) permanent funds	-	307,835	307,835
Unreserved:			
Undesignated, reported in:			
General fund	486,346	-	486,346
Special revenue funds	-	1,708,983	1,708,983
Permanent funds	<u>-</u>	<u>22,126</u>	<u>22,126</u>
TOTAL FUND BALANCES	<u>840,632</u>	<u>2,038,944</u>	<u>2,879,576</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>11,131,712</u>	\$ <u>2,088,307</u>	\$ <u>13,220,019</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, 2010

Total governmental fund balances	\$ 2,879,576
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	38,030,511
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	905,092
<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.	(59,075)
<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.	(137,201)
<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>(10,654,635)</u>
Net assets of governmental activities	<u>\$ 30,964,268</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, 2010

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 6,648,178	\$ 52,510	\$ 6,700,688
Penalties, interest and other taxes	170,072	-	170,072
Charges for services	-	228,321	228,321
Intergovernmental	575,143	47,473	622,616
Departmental	319,881	-	319,881
Licenses and permits	1,587,182	-	1,587,182
Investment income	14,788	82,187	96,975
Contributions	-	4,500	4,500
Miscellaneous	<u>38,552</u>	<u>-</u>	<u>38,552</u>
Total Revenues	9,353,796	414,991	9,768,787
Expenditures:			
Current:			
General government	2,717,526	15,579	2,733,105
Public safety	2,638,858	190,304	2,829,162
Education	-	3,496	3,496
Public works	1,995,605	2,826	1,998,431
Health and human services	47,863	34	47,897
Culture and recreation	52,541	398,336	450,877
Debt service	1,050,478	-	1,050,478
Capital outlay	<u>250,687</u>	<u>-</u>	<u>250,687</u>
Total Expenditures	8,753,558	610,575	9,364,133
Excess (deficiency) of revenues over expenditures	600,238	(195,584)	404,654
Other Financing Sources (Uses):			
Transfers in	115,822	298,031	413,853
Transfers out	<u>(294,787)</u>	<u>(125,862)</u>	<u>(420,649)</u>
Total Other Financing Sources (Uses)	<u>(178,965)</u>	<u>172,169</u>	<u>(6,796)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	421,273	(23,415)	397,858
Fund Equity, at Beginning of Year	<u>419,359</u>	<u>2,062,359</u>	<u>2,481,718</u>
Fund Equity, at End of Year	<u>\$ 840,632</u>	<u>\$ 2,038,944</u>	<u>\$ 2,879,576</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, 2010

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 397,858						
<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> <tr> <td style="padding-left: 40px;">Capital outlay purchases</td> <td style="text-align: right;">597,438</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(925,886)</td> </tr> <tr> <td style="padding-left: 40px;">Loss on disposal</td> <td style="text-align: right;">(7,869)</td> </tr> </table> 		Capital outlay purchases	597,438	Depreciation	(925,886)	Loss on disposal	(7,869)
Capital outlay purchases	597,438						
Depreciation	(925,886)						
Loss on disposal	(7,869)						
<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. 346,411 							
<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: <table> <tr> <td style="padding-left: 40px;">Repayments of debt</td> <td style="text-align: right;">650,000</td> </tr> <tr> <td style="padding-left: 40px;">Repayment of leases</td> <td style="text-align: right;">207,976</td> </tr> </table> 		Repayments of debt	650,000	Repayment of leases	207,976		
Repayments of debt	650,000						
Repayment of leases	207,976						
<ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 9,209 							
<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. 66,808 							
<ul style="list-style-type: none"> Internal service fund operating results <u>(60,124)</u> 							
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>1,281,821</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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 6,848,562	6,607,907	6,607,907	\$ -
Penalties, interest and other taxes	155,055	155,055	170,072	15,017
Intergovernmental	875,257	875,257	575,143	(300,114)
Departmental	283,968	283,968	319,881	35,913
Licenses and permits	1,600,000	1,600,000	1,587,182	(12,818)
Investment income	7,000	7,000	14,788	7,788
Miscellaneous	5,900	5,900	38,552	32,652
Transfers in	110,292	110,292	81,852	(28,440)
Total Revenues and Other Sources	9,886,034	9,645,379	9,395,377	(250,002)
Expenditures and Other Uses:				
General government	1,997,526	1,997,526	2,137,814	(140,288)
Public safety	2,707,781	2,707,781	2,665,717	42,064
Public works	2,043,639	2,043,639	1,889,380	154,259
Health and human services	62,194	62,194	47,863	14,331
Culture and recreation	42,822	42,822	47,541	(4,719)
Debt service	1,050,478	1,050,478	1,050,478	-
Capital outlay	870,000	870,000	513,702	356,298
Transfers out	1,111,594	870,939	879,249	(8,310)
Total Expenditures and Other Uses	9,886,034	9,645,379	9,231,744	413,635
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 163,633	\$ 163,633

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 December 31, 2010

	Governmental <u>Activities</u> Internal Service <u>Funds</u>
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ <u>1,592</u>
TOTAL ASSETS	1,592
<u>LIABILITIES</u>	
Current:	
Accrued liabilities	<u>60,667</u>
TOTAL LIABILITIES	60,667
<u>NET ASSETS</u>	
Unrestricted	<u>(59,075)</u>
TOTAL NET ASSETS	\$ <u>(59,075)</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, 2010

	Governmental Activities Internal Service Fund
Operating Revenues:	
Employee and employer contributions	\$ <u>876,500</u>
Total Operating Revenues	876,500
Operating Expenses:	
Employee benefits	<u>936,624</u>
Total Operating Expenses	<u>936,624</u>
Operating Income (Loss)	<u>(60,124)</u>
Change in Net Assets	(60,124)
Net Assets at Beginning of Year	<u>1,049</u>
Net Assets at End of Year	\$ <u><u>(59,075)</u></u>

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Governmental Activities Internal Service Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from employees and employer	\$ 876,500
Payments of employee benefits and expenses	<u>(977,333)</u>
Net Cash (Used For) Operating Activities	<u>(100,833)</u>
Net Change in Cash and Short-Term Investments	(100,833)
Cash and Short-Term Investments, Beginning of Year	<u>102,425</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 1,592</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income (loss)	\$ (60,124)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Changes in assets and liabilities:	
Accrued liabilities	<u>(40,709)</u>
Net Cash (Used For) Operating Activities	<u><u>\$ (100,833)</u></u>

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
December 31, 2010

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and short-term investments	\$ <u>263,165</u>
Total Assets	263,165
 <u>LIABILITIES</u>	
Other liabilities	<u>263,165</u>
Total Liabilities	\$ <u><u>263,165</u></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 2010, 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 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 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 esti-

mated 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 and proprietary funds 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)	\$ 9,353,796	\$ 8,753,558
Other financing sources/uses (GAAP basis)	<u>115,822</u>	<u>294,787</u>
Subtotal (GAAP Basis)	9,469,618	9,048,345
To adjust property tax revenue to the budgetary basis	(40,271)	-
To reverse expenditures of prior year appropriation carryforwards	-	(136,329)
To book current year appropriation carryforwards	-	354,286
Other timing issues	<u>(33,970)</u>	<u>(34,558)</u>
Budgetary basis	<u>\$ 9,395,377</u>	<u>\$ 9,231,744</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, 2010, none of the Town's bank balance of \$ 10,033,920 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>Aa</u>	<u>A</u>
Corporate bonds	\$ 177	N/A	\$ -	\$ -	\$ 65	\$ 112
Corporate equities	221	N/A	221	-	-	-
Mutual funds	412	N/A	412	-	-	-
Federal agency securities	194		-	194	-	-
Total investments	<u>\$ 1,004</u>		<u>\$ 633</u>	<u>\$ 194</u>	<u>\$ 65</u>	<u>\$ 112</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.

Custodial credit risk is managed by maintaining investments in the Town's name.

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	\$ 63,185	6%
Federal National Mortgage	\$ 110,971	11%

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
Corporate bonds	\$ 177	\$ 41	\$ 86	\$ 50
Federal agency securities	<u>194</u>	<u>20</u>	<u>131</u>	<u>43</u>
Total	<u>\$ 371</u>	<u>\$ 61</u>	<u>\$ 217</u>	<u>\$ 93</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, 2010 consist of the following:

Property taxes:	
2010 levy	\$ 961,096
Unredeemed taxes:	
2009 levy	328,741
2008 levy	80,816
Unapplied payments	(13,874)
Yield tax	<u>335</u>
Total taxes receivable	<u>\$ 1,357,114</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	\$ 27,223
Other	\$ 17,102

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in 2010.

8. Interfund Transfers

Transfers between Governmental Activities do not offset by \$ 6,796. This represents a transfer to the Agency funds.

9. Capital Assets

Capital asset activity for the year ended December 31, 2010 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,741	\$ 263	\$ -	\$ 9,004
Machinery, equipment, and furnishings	6,033	335	(711)	5,657
Infrastructure	<u>13,950</u>	<u>-</u>	<u>-</u>	<u>13,950</u>
Total capital assets, being depreciated	28,724	598	(711)	28,611
Less accumulated depreciation for:				
Buildings and improvements	(3,584)	(188)	-	(3,772)
Machinery, equipment, and furnishings	(3,273)	(459)	703	(3,029)
Infrastructure	<u>(5,711)</u>	<u>(279)</u>	<u>-</u>	<u>(5,990)</u>
Total accumulated depreciation	<u>(12,568)</u>	<u>(926)</u>	<u>703</u>	<u>(12,791)</u>
Total capital assets, being depreciated, net	16,156	(328)	(8)	15,820
Capital assets, not being depreciated:				
Land	22,211	-	-	22,211
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>22,211</u>	<u>-</u>	<u>-</u>	<u>22,211</u>
Governmental activities capital assets, net	<u>\$ 38,367</u>	<u>\$ (328)</u>	<u>\$ (8)</u>	<u>\$ 38,031</u>

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

Governmental Activities:	
General government	\$ 164
Public safety	349
Public works	340
Culture and recreation	<u>73</u>
Total depreciation expense - governmental activities	<u>\$ 926</u>

10. Accounts Payable

Accounts payable represent 2010 expenditures paid after December 31, 2010.

11. 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, 2010 receivable balances, except property taxes that are accrued for subsequent 60-day collections.

12. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 12/31/10</u>
Open Space	01/15/19	3.73%	\$ 1,065,000
Open Space	10/15/19	3.42%	1,800,000
Open Space and Safety Renovations	08/15/35	4.06%	<u>6,550,000</u>
Total Governmental Activities:			\$ <u><u>9,415,000</u></u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of December 31, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 650,000	\$ 375,537	\$ 1,025,537
2012	650,000	349,937	999,937
2013	650,000	324,338	974,338
2014	650,000	298,538	948,538
2015	650,000	272,637	922,637
2016-2020	2,915,000	983,894	3,898,894
2021-2025	1,650,000	539,250	2,189,250
2026-2030	800,000	273,040	1,073,040
Thereafter	<u>800,000</u>	<u>103,200</u>	<u>903,200</u>
Total	\$ <u><u>9,415,000</u></u>	\$ <u><u>3,520,371</u></u>	\$ <u><u>12,935,371</u></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, 2010:

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2010, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 1/1/10	Additions	Reductions	Total Balance 12/31/10	Less Current Portion	Equals Long-Term Portion 12/31/10
<u>Governmental Activities</u>						
General obligation debt	\$ 10,065	\$ -	\$ (650)	\$ 9,415	\$ (650)	\$ 8,765
Compensated absences	206	15	-	221	(22)	199
Capital lease	984	-	(208)	776	(216)	560
Other post-employment benefits	118	125	-	243	-	243
Totals	\$ <u>11,373</u>	\$ <u>140</u>	\$ <u>(858)</u>	\$ <u>10,655</u>	\$ <u>(888)</u>	\$ <u>9,767</u>

13. 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.

14. 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, 2010:

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.

15. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how undesignated 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 undesignated fund balance:

GAAP basis balance	\$	486,346
Deferred revenue		<u>900,055</u>
Tax Rate Setting Balance	\$	<u><u>1,386,401</u></u>

16. Subsequent Events

A. Debt

Subsequent to December 31, 2010, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Tax anticipation note	\$ 4,000,000	1.60%	05/05/11	12/31/11

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

17. 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.

18. Post-Employment Health Care and Life Insurance Benefits

Other Post-Employment Benefits

The Town implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets 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 Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment health care benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of January 1, 2009, the actuarial valuation date, approximately 4 retirees and 55 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

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

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows

the components of the Town's annual OPEB cost for the year ending December 31, 2010, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2009.

Annual Required Contribution (ARC)	\$ 129,551
Interest on net OPEB obligation	4,710
Adjustment to ARC	<u>(4,914)</u>
Annual OPEB cost	129,347
Contributions made	<u>(3,929)</u>
Increase in net OPEB obligation	125,418
Net OPEB obligation - beginning of year	<u>117,750</u>
Net OPEB obligation - end of year	<u>\$ 243,168</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>
2010	\$ 129,347	3.0%	\$ 243,168
2009	\$ 121,515	3.1%	\$ 117,750

The Town's net OPEB obligation as of is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2009, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 527,066
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>527,066</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 2,811,308</u>
UAAL as a percentage of covered payroll	<u>19%</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 deter-

mined 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 January 1, 2009 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual health-care cost trend rate of 9% which decreases to a 5% long-term rate for all healthcare benefits after four years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 29 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

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

20. 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, 2010 are as follows:

	<u>Health Coverage</u>
Claims liability, January 1, 2010	\$ 101,376
Claims incurred/recognized in fiscal year 2010	936,624
Claims paid in fiscal year 2010	<u>(977,333)</u>
Claims liability, December 31, 2010	<u>\$ 60,667</u>

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

**December 31, 2010
(Unaudited)**

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

See Independent Auditors' Report.