

**TOWN OF HOLLIS, NEW HAMPSHIRE**  
**Annual Financial Statements**  
**For the Year Ended December 31, 2011**

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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, 2011, 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, 2011, and the respective changes in financial position and cash flows, where applicable, 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, and the supplementary information on page 42, 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

August 28, 2012

## **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 year ended December 31, 2011.

### **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 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 time off).

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

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories; governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available

at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

**Proprietary funds.** Proprietary funds are maintained as follows:

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for self-insured employee health programs. 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 year, the total of assets exceeded liabilities by \$ 31,244,964 (i.e., net assets), a change of \$ 576,633 in comparison to the prior year.

- As of the close of the current year, governmental funds reported combined ending fund balances of \$ 2,436,291, a change of \$ (147,348) in comparison to the prior year.
- At the end of the current year, unassigned fund balance for the general fund was \$ 1,030,778, a change of \$ 544,432 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current year was \$ 8,765,000, a change of \$ (650,000) in comparison to the prior year.

### **C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Current assets	\$ 10,138,972	\$ 12,471,791
Noncurrent assets	38,417,693	38,440,068
Total assets	<u>48,556,665</u>	<u>50,911,859</u>
Current liabilities	8,313,214	10,476,856
Noncurrent liabilities	8,998,487	9,766,672
Total liabilities	<u>17,311,701</u>	<u>20,243,528</u>
Net assets:		
Invested in capital assets, net	28,938,539	27,840,024
Restricted	1,196,131	1,743,007
Unrestricted	1,110,294	1,085,300
Total net assets	<u>\$ 31,244,964</u>	<u>\$ 30,668,331</u>

## CHANGES IN NET ASSETS

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 606,770	\$ 547,324
Operating grants and contributions	152,987	46,615
Capital grants and contributions	487,752	239,084
General revenues:		
Property taxes	6,473,145	7,047,978
Penalties, interest, and other taxes	165,753	170,072
Grants and contributions not restricted to specific programs	449,815	336,917
Licenses and permits	1,586,084	1,587,182
Investment income	35,745	96,975
Miscellaneous	20,892	30,898
Permanent fund contributions	5,325	4,500
<b>Total revenues</b>	<u>9,984,268</u>	<u>10,107,545</u>
<b>Expenses:</b>		
General government	3,262,376	2,955,691
Public safety	3,096,846	2,646,732
Education	-	3,496
Highways and streets	1,725,596	1,770,543
Sanitation	401,385	528,853
Health	43,133	52,239
Welfare	4,936	5,658
Culture and recreation	495,533	448,868
Conservation	13,294	15,579
Interest	364,536	391,269
<b>Total expenses</b>	<u>9,407,635</u>	<u>8,818,928</u>
Change in net assets before transfers	576,633	1,288,617
Transfers in (out)	-	(6,796)
Change in net assets	576,633	1,281,821
Net assets - beginning of year	<u>30,668,331</u>	<u>29,386,510</u>
Net assets - end of year	<u>\$ 31,244,964</u>	<u>\$ 30,668,331</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 year, total net assets were \$ 31,244,964, a change of \$ 576,633 from the prior year.

The largest portion of net assets \$ 28,938,539 reflects our investment in capital assets (e.g., land, buildings and improvements, machinery, equipment, and furnishings, infrastructure, and construction in progress), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 1,196,131 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 1,110,294 may be used to meet the Town's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities for the year resulted in a change in net assets of \$ 576,633. Key elements of this change are as follows:

General fund revenues and transfers in in excess of expenditures and transfers out	\$ 269,684
Nonmajor governmental funds expenditures and transfers out in excess of revenues and transfers in	(417,032)
Internal service fund operations	60,668
Depreciation expense in excess of principal debt service	(371,469)
Capital asset additions from current revenues	1,254,119
Other	<u>(219,337)</u>
Total	<u>\$ 576,633</u>

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

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

As of the end of the current year, governmental funds reported combined ending fund balances of \$ 2,436,291, a change of \$ (147,348) in comparison to the prior year. Key elements of this change are as follows:

General fund revenues and transfers in in excess of expenditures and transfers out	\$ 269,684
Nonmajor governmental funds expenditures and transfers out in excess of revenues and transfers in	<u>(417,032)</u>
Total	<u>\$ (147,348)</u>

In 2011, the Town implemented *Governmental Accounting Standards Board Statement #54 Fund Balance Reporting and Governmental Fund Type Definitions*. In general, amounts previously reported as undesignated fund balance, are now reported as unassigned fund balance. Full definitions of all fund balance classifications can be found in the notes to financial statements. Additionally, amounts previously reported in reserve funds, are now required to be presented as committed fund balance in the general fund.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$ 1,030,778 while total fund balance was \$ 1,240,160. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>12/31/11</u>	<u>12/31/10</u>	<u>Change</u>	% of <u>Total General Fund Expenditures</u>
Unassigned fund balance	\$ 1,030,778	\$ 486,346	\$ 544,432	11.2%
Total fund balance <sup>1</sup>	1,240,160	970,476	269,684	13.5%

<sup>1</sup>Now includes reserve fund. Prior period balances have been revised to conform to the current presentation.

The fund balance of the general fund changed by \$ 269,684 during the current year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 324,716
Expenditures in excess of budget	(129,464)
Change in encumbrances	(123,034)
Change in reserve fund	(19,806)
Other GAAP adjustments	<u>217,272</u>
Total	<u>\$ 269,684</u>

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

	<u>12/31/11</u>	<u>12/31/10</u>	<u>Change</u>
Reserve fund	\$ <u>110,038</u>	\$ <u>129,844</u>	\$ <u>(19,806)</u>

**E. GENERAL FUND BUDGETARY HIGHLIGHTS**

There were no changes to the original budget during 2011.

**F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental activities at year-end amounted to \$ 38,263,161 (net of accumulated depreciation), a change of \$ 232,650 from the prior year. This investment in capital assets includes land, buildings and improvements, machinery, equipment, and furnishings, infrastructure, and construction in progress.

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

**Long-term debt.** At the end of the current year, total bonded debt outstanding was \$ 8,765,000, all of which was backed by the full faith and credit of the government.

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

**REQUESTS FOR INFORMATION**

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

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

TOWN OF HOLLIS, NEW HAMPSHIRE

STATEMENT OF NET ASSETS

DECEMBER 31, 2011

	Governmental <u>Activities</u>
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 8,455,669
Investments	718,929
Receivables, net of allowance for uncollectibles:	
Property taxes	709,975
Departmental and other	33,563
Intergovernmental	196,096
Other assets	24,740
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	154,532
Capital assets:	
Land and construction in progress	22,638,530
Other capital assets, net of accumulated depreciation	<u>15,624,631</u>
<b>TOTAL ASSETS</b>	<b>48,556,665</b>
<b>LIABILITIES</b>	
Current:	
Accounts payable	237,632
Accrued expenses	151,199
Due to school districts	6,662,045
Other liabilities	241,085
Accrued interest payable	127,756
Current portion of long-term liabilities:	
Bonds payable	650,000
Compensated absences	19,464
Capital leases	224,033
Noncurrent:	
Bonds payable, net of current portion	8,115,000
Compensated absences, net of current portion	175,176
Capital leases, net of current portion	335,590
Net OPEB obligation	<u>372,721</u>
<b>TOTAL LIABILITIES</b>	<b>17,311,701</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	28,938,539
Restricted for:	
Grants and other statutory restrictions	962,696
Permanent funds:	
Nonexpendable	233,435
Unrestricted	<u>1,110,294</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u><u>31,244,964</u></u></b>

See notes to financial statements.



TOWN OF HOLLIS, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2011

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 7,927,109	\$ 526,967	\$ 8,454,076
Investments	-	718,929	718,929
Receivables:			
Property taxes	993,507	-	993,507
Departmental and other	33,563	-	33,563
Intergovernmental	196,096	-	196,096
Due from other funds	49,952	187	50,139
Other assets	<u>24,740</u>	<u>-</u>	<u>24,740</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 9,224,967</u></b>	<b><u>\$ 1,246,083</u></b>	<b><u>\$ 10,471,050</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 237,632	\$ -	\$ 237,632
Accrued expenses	151,199	-	151,199
Deferred revenues	692,659	-	692,659
Due to school districts	6,662,045	-	6,662,045
Due to other funds	187	49,952	50,139
Other liabilities	<u>241,085</u>	<u>-</u>	<u>241,085</u>
<b>TOTAL LIABILITIES</b>	<b>7,984,807</b>	<b>49,952</b>	<b>8,034,759</b>
Fund Balances:			
Nonspendable	24,740	660,290	685,030
Restricted	-	535,841	535,841
Committed	110,038	-	110,038
Assigned	74,604	-	74,604
Unassigned	<u>1,030,778</u>	<u>-</u>	<u>1,030,778</u>
<b>TOTAL FUND BALANCES</b>	<b><u>1,240,160</u></b>	<b><u>1,196,131</u></b>	<b><u>2,436,291</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 9,224,967</u></b>	<b><u>\$ 1,246,083</u></b>	<b><u>\$ 10,471,050</u></b>

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, 2011

<b>TOTAL GOVERNMENTAL FUND BALANCES</b>	\$ 2,436,291
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	38,263,161
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	563,659
• 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.	1,593
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(127,756)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(8,765,000)
Compensated absences	(194,640)
Capital leases	(559,623)
Net OPEB obligation	<u>(372,721)</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<u>\$ 31,244,964</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, 2011

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 6,765,217	\$ -	\$ 6,765,217
Penalties, interest and other taxes	99,763	65,990	165,753
Charges for services	333,081	323,053	656,134
Intergovernmental	937,566	152,987	1,090,553
Licenses and permits	1,586,083	-	1,586,083
Investment income	11,562	24,183	35,745
Contributions	-	5,325	5,325
Miscellaneous	<u>27,736</u>	<u>2,156</u>	<u>29,892</u>
Total Revenues	9,761,008	573,694	10,334,702
<b>Expenditures:</b>			
Current:			
General government	2,898,081	6,041	2,904,122
Public safety	2,715,742	346,983	3,062,725
Highways and streets	1,507,801	-	1,507,801
Sanitation	407,536	-	407,536
Health	43,133	-	43,133
Welfare	4,901	34	4,935
Culture and recreation	41,473	380,135	421,608
Conservation	-	396,294	396,294
Debt service:			
Principal	650,000	-	650,000
Interest	373,981	-	373,981
Capital outlay	<u>566,914</u>	<u>143,001</u>	<u>709,915</u>
Total Expenditures	<u>9,209,562</u>	<u>1,272,488</u>	<u>10,482,050</u>
Excess (deficiency) of revenues over expenditures	551,446	(698,794)	(147,348)
<b>Other Financing Sources (Uses):</b>			
Transfers in	715	298,519	299,234
Transfers out	<u>(282,477)</u>	<u>(16,757)</u>	<u>(299,234)</u>
Total Other Financing Sources (Uses)	<u>(281,762)</u>	<u>281,762</u>	<u>-</u>
Change in fund balance	269,684	(417,032)	(147,348)
Fund Equity, at Beginning of Year, as restated	<u>970,476</u>	<u>1,613,163</u>	<u>2,583,639</u>
Fund Equity, at End of Year	<u>\$ 1,240,160</u>	<u>\$ 1,196,131</u>	<u>\$ 2,436,291</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, 2011

<b>NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ (147,348)</b>						
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">1,263,119</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(1,021,469)</td> </tr> <tr> <td>Loss on disposal</td> <td style="text-align: right;">(9,000)</td> </tr> </table> </li> </ul>		Capital outlay purchases	1,263,119	Depreciation	(1,021,469)	Loss on disposal	(9,000)
Capital outlay purchases	1,263,119						
Depreciation	(1,021,469)						
Loss on disposal	(9,000)						
<ul style="list-style-type: none"> <li>• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., property taxes) differ between the two statements. This amount represents the net change in deferred revenue. <span style="float: right;">(341,435)</span></li> </ul>							
<ul style="list-style-type: none"> <li>• 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 border="0" style="margin-left: 40px;"> <tr> <td>Repayments of debt</td> <td style="text-align: right;">650,000</td> </tr> <tr> <td>Repayment of leases</td> <td style="text-align: right;">215,865</td> </tr> </table> </li> </ul>		Repayments of debt	650,000	Repayment of leases	215,865		
Repayments of debt	650,000						
Repayment of leases	215,865						
<ul style="list-style-type: none"> <li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <span style="float: right;">9,445</span></li> </ul>							
<ul style="list-style-type: none"> <li>• Some expenses reported in the Statement of Activities, such as compensated absences and net OPEB obligation, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td>Compensated absences</td> <td style="text-align: right;">26,340</td> </tr> <tr> <td>Net OPEB obligation</td> <td style="text-align: right;">(129,552)</td> </tr> </table> </li> </ul>		Compensated absences	26,340	Net OPEB obligation	(129,552)		
Compensated absences	26,340						
Net OPEB obligation	(129,552)						
<ul style="list-style-type: none"> <li>• Internal service fund operating results</li> </ul>	60,668						
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>576,633</u></b>						

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, 2011

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		Positive (Negative)
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 6,547,945	\$ 6,547,945	\$ 6,547,945	\$ -
Penalties, interest and other taxes	91,100	91,100	99,763	8,663
Charges for services	276,480	276,480	333,081	56,601
Intergovernmental	822,838	822,838	937,566	114,728
Licenses and permits	1,466,325	1,466,325	1,586,083	119,758
Investment income	10,500	10,500	11,457	957
Miscellaneous	15,075	15,075	13,192	(1,883)
Transfers in	<u>50,200</u>	<u>50,200</u>	<u>76,092</u>	<u>25,892</u>
Total Revenues and Other Sources	9,280,463	9,280,463	9,605,179	324,716
<b>Expenditures and Other Uses:</b>				
Current:				
General government	3,061,191	3,061,191	2,896,019	165,172
Public safety	2,698,203	2,698,203	2,709,687	(11,484)
Highways and streets	1,493,311	1,493,311	1,507,801	(14,490)
Sanitation	422,184	422,184	407,536	14,648
Health	47,294	47,294	43,133	4,161
Welfare	10,900	10,900	4,901	5,999
Culture and recreation	43,921	43,921	41,473	2,448
Conservation	1	1	-	1
Debt service:				
Principal	650,000	650,000	650,000	-
Interest	373,981	373,981	373,981	-
Capital outlay	90,000	90,000	425,170	(335,170)
Transfers out	<u>389,477</u>	<u>389,477</u>	<u>350,226</u>	<u>39,251</u>
Total Expenditures and Other Uses	<u>9,280,463</u>	<u>9,280,463</u>	<u>9,409,927</u>	<u>(129,464)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>195,252</u>	\$ <u>195,252</u>

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 DECEMBER 31, 2011

	Governmental Activities Internal Service Fund
<b><u>ASSETS</u></b>	
Current:	
Cash and short-term investments	\$ <u>1,593</u>
<b>TOTAL ASSETS</b>	1,593
<b><u>LIABILITIES</u></b>	
Current:	
Accrued liabilities	<u>-</u>
<b>TOTAL LIABILITIES</b>	-
<b><u>NET ASSETS</u></b>	
Unrestricted	<u>1,593</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 1,593</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, 2011

	Governmental <u>Activities</u> Internal Service <u>Fund</u>
<b>Operating Revenues:</b>	
Employee and employer contributions	\$ <u>979,203</u>
Total Operating Revenues	979,203
<b>Operating Expenses:</b>	
Employee benefits	<u>918,535</u>
Total Operating Expenses	<u>918,535</u>
Operating Income (Loss)	<u>60,668</u>
Change in Net Assets	60,668
Net Assets at Beginning of Year	<u>(59,075)</u>
Net Assets at End of Year	\$ <u><u>1,593</u></u>

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Governmental <u>Activities</u> Internal Service <u>Fund</u>
<b><u>Cash Flows From Operating Activities:</u></b>	
Receipts from employees and employer	\$ 979,203
Payments of employee benefits and expenses	<u>(979,202)</u>
Net Cash Provided By Operating Activities	<u>1</u>
Net Change in Cash and Short-Term Investments	1
Cash and Short-Term Investments, Beginning of Year	<u>1,592</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,593</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>	
Operating income (loss)	\$ 60,668
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Changes in assets and liabilities:	
Accrued liabilities	<u>(60,667)</u>
Net Cash Provided By Operating Activities	<u>\$ 1</u>

See notes to financial statements.

TOWN OF HOLLIS, NEW HAMPSHIRE  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
DECEMBER 31, 2011

	<u>Agency Funds</u>
<b><u>ASSETS</u></b>	
Cash and short-term investments	\$ 215,993
Investments	<u>300,083</u>
Total Assets	<u>\$ 516,076</u>
<b><u>LIABILITIES</u></b>	
Other liabilities	<u>\$ 516,076</u>
Total Liabilities	<u>\$ 516,076</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, New Hampshire (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

#### A. Reporting Entity

The 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 2011, 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 Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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

##### Fund Financial Statements

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

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



*D. Cash and Short-Term Investments*

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

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

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

*E. Investments*

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

Investments for the Trust Funds consist of corporate stocks and mutual funds, bonds, and federal agency securities. Investments are carried at market value.

*F. Interfund Receivables and Payables*

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

*G. Capital Assets*

Capital assets, which include land, buildings and improvements, machinery, equipment, and furnishings, infrastructure, and construction in progress, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the 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. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

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

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

*H. Compensated Absences*

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

*I. Long-Term Obligations*

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

*J. Fund Equity*

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

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure.

Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

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

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

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

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

#### *K. Fund Balance Policy*

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

1. DRA – Recommends retaining 5% to 10% of the gross general fund operating expenditures, including Town, School, and County appropriations.

2. GFOA – Recommends retaining 8% to 17% of the gross general fund operating expenditures, including Town, School, and County appropriations.

At December 31, 2011, unassigned fund balance was 3.6% of general fund gross appropriations (including Town, School, and County appropriations).

*L. Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

*M. Reclassifications*

The accompanying financial statements reflect various changes in classification from the prior year.

**2. Stewardship, Compliance and Accountability**

*A. Budgetary Information*

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

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

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

*B. Budgetary Basis*

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 9,761,008	\$ 9,209,562
Other financing sources/uses (GAAP basis)	<u>715</u>	<u>282,477</u>
Subtotal (GAAP Basis)	9,761,723	9,492,039
Adjust tax revenue to accrual basis	(217,272)	-
Reverse 2010 appropriation carryforwards expended in 2011	-	(197,638)
Add 2011 appropriation carryforwards to expenditures	-	74,604
Reverse reserve fund activity	75,272	55,466
To reverse unbudgeted in-kind contribution	<u>(14,544)</u>	<u>(14,544)</u>
Budgetary Basis	<u>\$ 9,605,179</u>	<u>\$ 9,409,927</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations by \$ 129,464 during 2011 as a result of unbudgeted capital outlay expenditures.

3. Cash and Short-Term Investments

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. RSA 48:16 limits "deposit in any one bank shall not at any time exceed the

sum of its paid-up capital and surplus.” The Town does not have a deposit policy for custodial credit risk.

As of December 31, 2011, none of the Town’s bank balance of \$ 8,558,386 was exposed to custodial credit risk as uninsured or uncollateralized.

**4. Investments**

**A. Credit Risk**

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>Aaa</u>	<u>Aa</u>	<u>A</u>
Corporate bonds	\$ 135,422	N/A	\$ -	\$ -	\$ 63,120	\$ 72,302
Corporate equities	243,951	N/A	243,951	-	-	-
Mutual funds	466,511	N/A	466,511	-	-	-
Federal agency securities	<u>173,128</u>		<u>-</u>	<u>173,128</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 1,019,012</u>		<u>\$ 710,462</u>	<u>\$ 173,128</u>	<u>\$ 63,120</u>	<u>\$ 72,302</u>

**B. Custodial Credit Risk**

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

**C. Concentration of Credit Risk**

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

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
Vanguard Intermediate Term Corporate Fund	\$ 55,530	5%
Loomis Sayles Investment Grade Bond Y	61,721	6%
Federal National Mortgage	<u>110,753</u>	11%
Total	\$ <u>228,004</u>	

**D. Interest Rate Risk**

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
Corporate bonds	\$ 135,422	\$ 40,806	\$ 42,801	\$ 51,815
Federal agency securities	<u>173,128</u>	<u>41,079</u>	<u>110,753</u>	<u>21,296</u>
Total	\$ <u>308,550</u>	\$ <u>81,885</u>	\$ <u>153,554</u>	\$ <u>73,111</u>

**E. Foreign Currency Risk**

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

**5. Taxes Receivable**

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

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

chases 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, 2011 consist of the following:

Property taxes:	
2011 levy	\$ 783,263
Unredeemed taxes:	
2010 levy	182,386
2009 levy	59,146
Unapplied payments	(31,719)
Yield tax	<u>431</u>
Total	<u>\$ 993,507</u>

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

**6. Allowance for Doubtful Accounts**

The property tax receivables reported in the accompanying entity-wide financial statements reflect an estimated allowance for doubtful accounts of \$ 129,000.

**7. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in 2011.

**8. Interfund Fund Receivables/Payables**

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the December 31, 2011 balances in interfund receivable and payable accounts:



<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 49,952	\$ 187
Nonmajor Governmental Funds	<u>187</u>	<u>49,952</u>
Total	<u>\$ 50,139</u>	<u>\$ 50,139</u>

## 9. Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 9,004	\$ 686	\$ -	\$ 9,690
Machinery, equipment, and furnishings	5,657	149	(219)	5,587
Infrastructure	<u>13,950</u>	<u>-</u>	<u>-</u>	<u>13,950</u>
Total capital assets, being depreciated	28,611	835	(219)	29,227
Less accumulated depreciation for:				
Buildings and improvements	(3,772)	(238)	-	(4,010)
Machinery, equipment, and furnishings	(3,029)	(505)	210	(3,324)
Infrastructure	<u>(5,990)</u>	<u>(279)</u>	<u>-</u>	<u>(6,269)</u>
Total accumulated depreciation	<u>(12,791)</u>	<u>(1,022)</u>	<u>210</u>	<u>(13,603)</u>
Total capital assets, being depreciated, net	15,820	(187)	(9)	15,624
Capital assets, not being depreciated:				
Land	22,211	383	-	22,594
Construction in progress	<u>-</u>	<u>227</u>	<u>(182)</u>	<u>45</u>
Total capital assets, not being depreciated	<u>22,211</u>	<u>610</u>	<u>(182)</u>	<u>22,639</u>
Governmental activities capital assets, net	<u>\$ 38,031</u>	<u>\$ 423</u>	<u>\$ (191)</u>	<u>\$ 38,263</u>

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

Governmental Activities:	
General government	\$ 178
Public safety	434
Highways and streets	336
Culture and recreation	<u>74</u>
Total depreciation expense - governmental activities	<u>\$ 1,022</u>

**10. Accounts Payable**

Accounts payable represent 2011 expenditures paid after December 31, 2011.

**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, 2011 receivable balances, except property taxes that are collected within 60 days.

**12. Capital Lease Obligations**

The Town is the lessee of certain equipment under capital leases expiring in various years through 2015. Future minimum payments under the capital leases consisted of the following as of December 31, 2011:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 224,033	\$ 19,076	\$ 243,109
2013	168,536	10,600	179,136
2014	110,377	5,346	115,723
2015	<u>56,677</u>	<u>1,085</u>	<u>57,762</u>
Total	<u>\$ 559,623</u>	<u>\$ 36,107</u>	<u>\$ 595,730</u>

**13. Long-Term Debt**

*A. General Obligation Bonds*

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds 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>12/31/11</u>
Open Space	01/15/19	3.73%	\$ 945,000
Open Space	10/15/19	3.42%	1,600,000
Open Space and Safety Renovations	08/15/35	4.06%	<u>6,220,000</u>
Total			<u>\$ 8,765,000</u>

**B. Future Debt Service**

The annual payments to repay bonds payable outstanding as of December 31, 2011 are as follows:

<u>Governmental Activities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 650,000	\$ 349,938	\$ 999,938
2013	650,000	324,338	974,338
2014	650,000	298,538	948,538
2015	650,000	272,638	922,638
2016	650,000	247,038	897,038
2017 - 2021	2,595,000	871,106	3,466,106
2022 - 2026	1,480,000	472,920	1,952,920
Thereafter	<u>1,440,000</u>	<u>308,320</u>	<u>1,748,320</u>
Total	<u>\$ 8,765,000</u>	<u>\$ 3,144,836</u>	<u>\$ 11,909,836</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, 2011.

**C. Changes in General Long-Term Liabilities**

During the year ended December 31, 2011, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>1/1/11</u>	Additions	Reductions	Total Balance <u>12/31/11</u>	Less Current Portion	Equals Long-Term Portion <u>12/31/11</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 9,415	\$ -	\$ (650)	\$ 8,765	\$ (650)	\$ 8,115
Other:						
Compensated absences	221	-	(27)	194	(19)	175
Capital leases	776	-	(216)	560	(224)	336
Net OPEB obligation	243	148	(18)	373	-	373
Totals	<u>\$ 10,655</u>	<u>\$ 148</u>	<u>\$ (911)</u>	<u>\$ 9,892</u>	<u>\$ (893)</u>	<u>\$ 8,999</u>

#### 14. 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 in accordance with donor restrictions.

#### 15. Fund Balances

The following is a summary of fund balances at December 31, 2011:

	<u>Unassigned</u>	<u>Assigned</u>	<u>Committed</u>	<u>Restricted</u>	<u>Nonspendable</u>	<u>Total</u>
<u>General Fund:</u>						
Capital reserve fund	\$ -	\$ -	\$ 110,038	\$ -	\$ -	\$ 110,038
Prepaid expenses	-	-	-	-	1,195	1,195
Tax deeded property	-	-	-	-	23,545	23,545
Encumbrances	-	74,604	-	-	-	74,604
Remaining fund balance	<u>1,030,778</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,030,778</u>
Total General Fund	1,030,778	74,604	110,038	-	24,740	1,240,160
<u>Nonmajor Governmental Funds:</u>						
Special revenue funds	-	-	-	535,841	426,855	962,696
Nonexpendable permanent funds	-	-	-	-	233,435	233,435
Total Nonmajor Governmental Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>535,841</u>	<u>660,290</u>	<u>1,196,131</u>
Total All Funds	<u>\$ 1,030,778</u>	<u>\$ 74,604</u>	<u>\$ 110,038</u>	<u>\$ 535,841</u>	<u>\$ 685,030</u>	<u>\$ 2,436,291</u>

**16. General Fund Unassigned Fund Balance**

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

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

GAAP basis balance	\$ 1,030,778
Deferred revenue	<u>692,659</u>
Tax Rate Setting Balance	<u>\$ 1,723,437</u>

**17. Subsequent Events**

Subsequent to December 31, 2011, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Tax anticipation note	\$ 3,000,000	1.625%	05/21/12	12/31/12

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

**18. Commitments and Contingencies**

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

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

## 19. Retirement System

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

### A. Plan Description

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

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

### B. Funding Policy

Plan members are required to contribute a percentage of their gross earnings to the pension plan. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16. The Town's contribution to the System for the year ended December 31, 2011 was \$ 421,741, which is equal to its annual required contribution for this year.

The payroll for employees covered by the System for the year ended December 31, 2011, was \$ 3,135,688. In accordance with State House Bill 2, the provision in RSA 100-A:16 requiring State contributions has been eliminated as of July 1, 2011. The amount contributed by the State for the first half of the Town's year was determined to be immaterial. Contribution requirements for the year ended December 31, 2011, were as follows:

Town	\$ 421,741
Employees' Contributions	<u>247,776</u>
Total	<u>\$ 669,517</u>

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

**Other Post-Employment Benefits**

The Town has implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net 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 2011 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, 2011, 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)	\$ 138,048
Interest on net OPEB obligation	9,727
Adjustment to ARC	<u>(10,438)</u>
Annual OPEB cost	137,337
Contributions made	<u>(7,784)</u>
Increase in net OPEB obligation	129,553
Net OPEB obligation - beginning of year	<u>243,168</u>
Net OPEB obligation - end of year	<u><u>\$ 372,721</u></u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 137,337	5.7%	\$ 372,721
2010	\$ 129,347	3.0%	\$ 243,168
2009	\$ 121,515	3.1%	\$ 117,750

E. Funded Status and Funding Progress

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



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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*F. Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

**21. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the 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 years.

**22. Self-Insurance**

During 2011, the Town switched from being self-insured to a premium based health plan. As of December 31, 2011 there was no liability for unpaid claims. Remaining balances in the internal service fund will be closed to the general fund during 2012.

Changes in the aggregate liability for claims for the year ended December 31, 2011 are as follows:

	<u>Health Coverage</u>
Claims liability, January 1, 2011	\$ 60,667
Claims incurred/recognized in fiscal year 2011	979,203
Claims paid in fiscal year 2011	<u>(1,039,870)</u>
Claims liability, December 31, 2011	<u>\$ -</u>

**23. Beginning Fund Balance and Net Assets Restatement**

The beginning (January 1, 2011) balances of the Town have been restated as follows:

Government-wide Financial Statements:

	<u>Governmental Activities</u>
As previously reported	\$ 30,964,268
Reclassification of school funds to agency funds	<u>(295,937)</u>
As restated	<u>\$ 30,668,331</u>

Fund Basis Financial Statements:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
As previously reported	\$ 840,632	\$ 2,038,944	\$ 2,879,576
Reclassification of school funds to agency funds	-	(295,937)	(295,937)
Reclassification of reserve fund <sup>1</sup>	<u>129,844</u>	<u>(129,844)</u>	<u>-</u>
As restated	<u><u>\$ 970,476</u></u>	<u><u>\$ 1,613,163</u></u>	<u><u>\$ 2,583,639</u></u>

<sup>1</sup>Due to the implementation of GASB 54 in 2011, the general fund now includes reserve fund activity. As a result, the beginning fund balance of the general fund has changed from the previous year.

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

**December 31, 2011  
(Unaudited)**

**Other Post-Employment Benefits**

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

See Independent Auditors' Report.