

TOWN OF HOLLIS, NEW HAMPSHIRE
Annual Financial Statements
For the Year Ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Hollis, New Hampshire

Additional Offices:
Andover, MA
Greenfield, MA
Manchester, NH
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hollis, New Hampshire, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Town's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting

policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hollis, New Hampshire, as of December 31, 2013, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath

May 29, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Hollis, New Hampshire, we offer readers this narrative overview and analysis of the financial activities of the Town for the year ended December 31, 2013.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The Statement of Net Position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town'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.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's programs.

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 \$33,237,769 (i.e., net position), a change of \$996,366 in comparison to the prior year.
- As of the close of the current year, governmental funds reported combined ending fund balances of \$4,287,141, a change of \$703,537 in comparison to the prior year.
- At the end of the current year, unassigned fund balance for the general fund was \$2,328,425, a change of \$680,028 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current year was \$7,465,000, a change of \$(650,000) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

NET POSITION

	Governmental <u>Activities</u>	
	<u>2013</u>	<u>2012</u>
Current assets	\$ 12,785,835	\$ 11,288,246
Noncurrent assets	<u>37,193,523</u>	<u>37,789,202</u>
Total assets	49,979,358	49,077,448
Current liabilities	9,068,763	8,432,210
Noncurrent liabilities	<u>7,672,826</u>	<u>8,403,835</u>
Total liabilities	16,741,589	16,836,045
Net position:		
Net investment in capital assets	29,270,074	28,966,350
Restricted	1,518,344	1,295,362
Unrestricted	<u>2,449,351</u>	<u>1,979,691</u>
Total net position	<u>\$ 33,237,769</u>	<u>\$ 32,241,403</u>

CHANGE IN NET POSITION

	Governmental <u>Activities</u>	
	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues:		
Charges for services	\$ 563,184	\$ 587,225
Operating grants and contributions	15,022	126,968
Capital grants and contributions	189,452	439,779
General revenues:		
Property taxes	7,029,610	7,071,611
Licenses and permits	1,722,526	1,653,480
Penalties, interest, and other taxes	417,668	232,591
Grants and contributions not restricted to specific programs	357,041	352,643
Investment income	112,921	81,702
Miscellaneous	50,422	13,435
Permanent fund contributions	<u>3,750</u>	<u>2,475</u>
Total revenues	10,461,596	10,561,909

(continued)

(continued)

CHANGE IN NET POSITION

	Governmental Activities	
	<u>2013</u>	<u>2012</u>
Expenses:		
General government	3,215,500	3,256,728
Public safety	3,211,876	3,143,352
Highways and streets	1,776,537	1,874,569
Sanitation	438,627	412,809
Health	32,080	38,793
Welfare	5,509	824
Culture and recreation	464,132	496,684
Conservation	7,334	2,433
Interest	313,635	339,278
Total expenses	<u>9,465,230</u>	<u>9,565,470</u>
Change in net position	996,366	996,439
Net position - beginning of year	<u>32,241,403</u>	<u>31,244,964</u>
Net position - end of year	<u>\$ 33,237,769</u>	<u>\$ 32,241,403</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent year, total net position were \$33,237,769, a change of \$996,366 from the prior year.

The largest portion of net position \$29,270,074 reflects our investment in capital assets (e.g., land, buildings and improvements, machinery, equipment, and furnishings, infrastructure, and construction in progress), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$1,518,344 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$2,449,351 may be used to meet the Town's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$996,366. Key elements of this change are as follows:

General fund revenues and transfers in in excess of expenditures and transfers out	\$ 480,555
Nonmajor governmental funds revenues and transfers in in excess of expenditures and transfers out	222,982
Depreciation expense in excess of principal debt service	(390,962)
Capital asset additions, net of disposals	467,595
Other	<u>216,196</u>
Total	<u>\$ 996,366</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 \$4,287,141, a change of \$703,537 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	\$ 480,555
Nonmajor governmental funds revenues and transfers in in excess of expenditures and transfers out	<u>222,982</u>
Total	<u>\$ 703,537</u>

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$2,328,425 while total fund balance was \$2,768,797. 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>12/31/13</u>	<u>12/31/12</u>	<u>Change</u>	<u>Percentage of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 2,328,425	\$ 1,648,397	\$ 680,028	25.5%
Total fund balance	\$ 2,768,797	\$ 2,288,242	\$ 480,555	30.3%

The fund balance of the general fund changed by \$480,555 during the current year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 417,825
Expenditures less than budget	287,952
Change in encumbrances	246,869
Change in reserve fund	9,061
Use of fund balance	(434,823)
Other GAAP adjustments	<u>(46,329)</u>
Total	<u>\$ 480,555</u>

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

	<u>12/31/13</u>	<u>12/31/12</u>	<u>Change</u>
Reserve funds	\$ <u>158,183</u>	\$ <u>149,122</u>	\$ <u>9,061</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$194,823. This change relates to a use of voted reserves (fund balance).

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year-end amounted to \$37,064,591 (net of accumulated depreciation), a change of \$(573,366) 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 \$7,465,000, all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

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

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

TOWN OF HOLLIS, NEW HAMPSHIRE

STATEMENT OF NET POSITION

DECEMBER 31, 2013

	Governmental <u>Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 11,067,528
Investments	866,739
Receivables, net of allowance for uncollectibles:	
Property taxes	778,225
Intergovernmental	38,023
Other assets	35,320
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	128,932
Capital assets:	
Land and construction in progress	22,644,420
Other capital assets, net of accumulated depreciation	<u>14,420,171</u>
TOTAL ASSETS	49,979,358
LIABILITIES	
Current:	
Accounts payable	233,351
Accrued expenses	181,943
Due to school districts	7,422,112
Due to fiduciary funds	12,164
Other liabilities	251,566
Accrued interest payable	109,505
Current portion of noncurrent liabilities:	
Bonds payable	650,000
Compensated absences	19,459
Capital leases	188,663
Noncurrent:	
Bonds payable	6,815,000
Compensated absences	175,128
Capital leases	140,854
Net OPEB obligation	<u>541,844</u>
TOTAL LIABILITIES	16,741,589
NET POSITION	
Net investment in capital assets	29,270,074
Restricted for:	
Grants and other statutory restrictions	1,214,584
Permanent funds:	
Nonexpendable	285,614
Expendable	18,146
Unrestricted	<u>2,449,351</u>
TOTAL NET POSITION	\$ <u>33,237,769</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
General government	\$ 3,215,500	\$ 65,310	\$ -	\$ -	\$ (3,150,190)
Public safety	3,211,876	343,069	-	-	(2,868,807)
Highways and streets	1,776,537	6,800	-	189,452	(1,580,285)
Sanitation	438,627	70,991	-	-	(367,636)
Health	32,080	1,425	-	-	(30,655)
Welfare	5,509	1,111	-	-	(4,398)
Culture and recreation	464,132	74,478	15,022	-	(374,632)
Conservation	7,334	-	-	-	(7,334)
Interest	313,635	-	-	-	(313,635)
Total	<u>\$ 9,465,230</u>	<u>\$ 563,184</u>	<u>\$ 15,022</u>	<u>\$ 189,452</u>	(8,697,572)
General Revenues and Contributions:					
					7,029,610
					1,722,526
					417,668
					357,041
					112,921
					50,422
					<u>3,750</u>
Total general revenues and contributions					<u>9,693,938</u>
Change in Net Position					996,366
Net Position:					
Beginning of year					<u>32,241,403</u>
End of year					<u>\$ 33,237,769</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2013

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 10,360,654	\$ 706,874	\$ 11,067,528
Investments	-	866,739	866,739
Receivables:			
Property taxes	1,052,157	-	1,052,157
Intergovernmental	38,023	-	38,023
Due from other funds	54,176	815	54,991
Other assets	<u>35,320</u>	<u>-</u>	<u>35,320</u>
TOTAL ASSETS	\$ <u>11,540,330</u>	\$ <u>1,574,428</u>	\$ <u>13,114,758</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 230,603	\$ 2,748	\$ 233,351
Accrued expenses	181,943	-	181,943
Due to school districts	7,422,112	-	7,422,112
Due to other funds	13,817	53,336	67,153
Other liabilities	<u>251,566</u>	<u>-</u>	<u>251,566</u>
TOTAL LIABILITIES	8,100,041	56,084	8,156,125
Deferred Inflows of Resources	671,492	-	671,492
Fund Balances:			
Nonspendable	35,320	655,721	691,041
Restricted	-	862,623	862,623
Committed	158,183	-	158,183
Assigned	246,869	-	246,869
Unassigned	<u>2,328,425</u>	<u>-</u>	<u>2,328,425</u>
TOTAL FUND BALANCES	<u>2,768,797</u>	<u>1,518,344</u>	<u>4,287,141</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ <u>11,540,330</u>	\$ <u>1,574,428</u>	\$ <u>13,114,758</u>

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

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

DECEMBER 31, 2013

Total governmental fund balances		\$ 4,287,141
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	37,064,591	
<ul style="list-style-type: none"> • Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	526,490	
<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. 	(109,505)	
<ul style="list-style-type: none"> • Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: 		
Bonds payable	(7,465,000)	
Compensated absences	(194,587)	
Capital leases	(329,517)	
Net OPEB obligation	(541,844)	
Net position of governmental activities		\$ 33,237,769

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

TOWN OF HOLLIS, NEW HAMPSHIRE
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 6,953,966	\$ -	\$ 6,953,966
Licenses and permits	1,722,526	-	1,722,526
Penalties, interest, and other taxes	302,553	115,115	417,668
Charges for services	319,620	243,564	563,184
Intergovernmental	546,494	15,021	561,515
Investment income	8,126	104,795	112,921
Contributions	-	3,750	3,750
Miscellaneous	44,218	1,563	45,781
	<u>9,897,503</u>	<u>483,808</u>	<u>10,381,311</u>
Total Revenues			
Expenditures:			
Current:			
General government	2,851,659	3,771	2,855,430
Public safety	2,795,493	166,754	2,962,247
Highways and streets	1,525,677	-	1,525,677
Sanitation	438,627	-	438,627
Health	32,080	-	32,080
Welfare	5,487	22	5,509
Culture and recreation	37,468	365,071	402,539
Conservation	-	7,334	7,334
Debt service:			
Principal	650,000	-	650,000
Interest	322,782	-	322,782
Capital outlay	475,549	-	475,549
	<u>9,134,822</u>	<u>542,952</u>	<u>9,677,774</u>
Total Expenditures			
Excess (deficiency) of revenues over expenditures	762,681	(59,144)	703,537
Other Financing Sources (Uses):			
Transfers in	4,351	286,477	290,828
Transfers out	(286,477)	(4,351)	(290,828)
Total Other Financing Sources (Uses)	<u>(282,126)</u>	<u>282,126</u>	<u>-</u>
Change in fund balance	480,555	222,982	703,537
Fund Equity, at Beginning of Year	<u>2,288,242</u>	<u>1,295,362</u>	<u>3,583,604</u>
Fund Equity, at End of Year	<u>\$ 2,768,797</u>	<u>\$ 1,518,344</u>	<u>\$ 4,287,141</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

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

FOR THE YEAR ENDED DECEMBER 31, 2013

Net changes in fund balances - total governmental funds	\$ 703,537																
<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 purchases, net</td> <td style="text-align: right;">467,595</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(1,040,962)</td> </tr> </table> 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. <table> <tr> <td></td> <td style="text-align: right;">75,644</td> </tr> </table> The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <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 capital leases</td> <td style="text-align: right;">227,090</td> </tr> </table> In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table> <tr> <td></td> <td style="text-align: right;">9,147</td> </tr> </table> 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> <tr> <td style="padding-left: 40px;">Compensated absences</td> <td style="text-align: right;">(10,211)</td> </tr> <tr> <td style="padding-left: 40px;">Net OPEB obligation</td> <td style="text-align: right;"><u>(85,474)</u></td> </tr> </table> 		Capital purchases, net	467,595	Depreciation	(1,040,962)		75,644	Repayments of debt	650,000	Repayment of capital leases	227,090		9,147	Compensated absences	(10,211)	Net OPEB obligation	<u>(85,474)</u>
Capital purchases, net	467,595																
Depreciation	(1,040,962)																
	75,644																
Repayments of debt	650,000																
Repayment of capital leases	227,090																
	9,147																
Compensated absences	(10,211)																
Net OPEB obligation	<u>(85,474)</u>																
Change in net position of governmental activities	\$ <u>996,366</u>																

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

TOWN OF HOLLIS, NEW HAMPSHIRE

GENERAL FUND

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

FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts			Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original Budget	From Prior Years' Budgets	Final Budget		
Revenues and Other Sources:					
Property taxes	\$ 7,000,295	\$ -	\$ 7,000,295	\$ 7,000,295	\$ -
Licenses and permits	1,545,025	-	1,545,025	1,722,526	177,501
Penalties, interest, and other taxes	91,031	-	91,031	302,553	211,522
Charges for services	288,105	-	288,105	319,620	31,515
Intergovernmental	531,942	-	531,942	546,494	14,552
Investment income	6,500	-	6,500	8,066	1,566
Miscellaneous	12,200	-	12,200	44,218	32,018
Transfers in	55,200	-	55,200	4,351	(50,849)
Use of fund balance	<u>240,000</u>	<u>194,823</u>	<u>434,823</u>	<u>434,823</u>	<u>-</u>
Total Revenues and Other Sources	9,770,298	194,823	9,965,121	10,382,946	417,825
Expenditures and Other Uses:					
Current:					
General government	3,061,066	3,500	3,064,566	2,926,833	137,733
Public safety	2,846,318	43,532	2,889,850	2,882,941	6,909
Highways and streets	1,570,692	55,000	1,625,692	1,525,677	100,015
Sanitation	449,010	-	449,010	438,627	10,383
Health	33,000	-	33,000	32,080	920
Welfare	8,900	-	8,900	5,487	3,413
Culture and recreation	42,051	5,135	47,186	59,975	(12,789)
Conservation	1	-	1	-	1
Debt service:					
Principal	650,000	-	650,000	650,000	-
Interest	322,783	-	322,783	322,782	1
Capital outlay	340,000	87,656	427,656	425,200	2,456
Transfers out	<u>446,477</u>	<u>-</u>	<u>446,477</u>	<u>407,567</u>	<u>38,910</u>
Total Expenditures and Other Uses	<u>9,770,298</u>	<u>194,823</u>	<u>9,965,121</u>	<u>9,677,169</u>	<u>287,952</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>705,777</u>	\$ <u>705,777</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 DECEMBER 31, 2013

	<u>Agency Funds</u>
ASSETS	
Cash and short-term investments	\$ 229,663
Investments	375,729
Due from other funds	<u>12,162</u>
Total Assets	<u>\$ 617,554</u>
 LIABILITIES	
Other liabilities	<u>\$ 617,554</u>
Total Liabilities	<u>\$ 617,554</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In 2013, it was determined that no entities met the required GASB 39 criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

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

The Town reports the following major governmental fund:

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

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

D. Cash and Short-Term Investments

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

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

E. Investments

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

Investments consist of corporate bonds and equities and mutual funds. Investments are carried at market value.

F. Interfund Receivables and Payables

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

G. Capital Assets

Capital assets, which include land, buildings and improvements, machinery, equipment, and furnishings, infrastructure, and construction in progress, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

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

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

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

K. Fund Balance Policy

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

1. DRA – Recommends retaining 5% to 10% of the gross general fund operating expenditures, including Town, School, and County appropriations. Unassigned fund balance is reported on the budgetary basis for tax rate setting purposes (see Note 16), which includes all property tax revenues that otherwise would have been deferred under the modified accrual basis. At December 31, 2013, unassigned fund balance on the budgetary basis was 10.6% of

general fund operating expenditures (including Town, School, and County appropriations).

2. GFOA – Recommends retaining 8% to 17% of the gross general fund operating expenditures, including Town, School, and County appropriations. At December 31, 2013, unassigned fund balance was 8% of general fund operating expenditures (including Town, School, and County appropriations).

L. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

etary 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)	\$ 9,897,503	\$ 9,134,822
Other financing sources/uses (GAAP basis)	<u>4,351</u>	<u>286,477</u>
Subtotal (GAAP Basis)	9,901,854	9,421,299
Adjust tax revenue to accrual basis	46,329	-
Add 2013 appropriation carryforwards to expenditures	-	246,869
Reverse reserve fund activity	(60)	9,001
To record use of fund balance	<u>434,823</u>	<u>-</u>
Budgetary Basis	<u>\$ 10,382,946</u>	<u>\$ 9,677,169</u>

3. Cash and Short-Term Investments

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

As of December 31, 2013, the bank balance is categorized as follows:

Collateralized	\$ 5,524,407
Insured by FDIC	446,478
NHPDIP	<u>413,797</u>
Total Bank Balance	<u>\$ 6,384,682</u>

4. Investments

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year-end</u>	
				<u>Aaa</u>	<u>A - A3</u>
Corporate bonds	\$ 198,726	N/A	\$ -	\$ 85,451	\$ 113,275
Corporate equities	337,573	N/A	337,573	-	-
Mutual funds	<u>706,169</u>	N/A	<u>706,169</u>	-	-
Total investments	<u>\$ 1,242,468</u>		<u>\$ 1,043,742</u>	<u>\$ 85,451</u>	<u>\$ 113,275</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>
Federal National Mortgage	\$ <u>64,405</u>	5%
Total	<u>\$ 64,405</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	\$ 198,726	\$ 41,510	\$ 107,511	\$ 49,705
Total	\$ 198,726	\$ 41,510	\$ 107,511	\$ 49,705

E. Foreign Currency Risk

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

5. Taxes Receivable

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

Property taxes are due on July 1 and December 1. Delinquent accounts are charged 12% interest. At the time of tax sale, in March of the next year, a lien is recorded on the property at the Registry of Deeds. The Town purchases all the delinquent accounts by paying the delinquent balance, recording costs and accrued interest. The accounts that are liened by the Town will be reclassified from property taxes receivable to unredeemed tax liens receivable. After this date, delinquent accounts will be charged interest at a rate of 18%. The Town annually budgets an amount (overlay for abatements) for property tax abatements and refunds.

Taxes receivable at December 31, 2013 consist of the following:

Property taxes:		
2013 levy	\$	822,282
Unredeemed taxes:		
2012 levy		149,557
2011 levy		95,873
2010 levy		19,644
Unapplied payments		<u>(35,199)</u>
Total	\$	<u>1,052,157</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 \$145,000.

7. Intergovernmental Receivables

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

8. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the December 31, 2013 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 54,176	\$ 13,817
Nonmajor Governmental Funds	815	53,336
Agency Funds	<u>12,162</u>	<u>-</u>
Total	<u>\$ 67,153</u>	<u>\$ 67,153</u>

9. Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 9,803	\$ 335	\$ -	\$ 10,138
Machinery, equipment, and furnishings	5,727	159	(85)	5,801
Infrastructure	<u>13,950</u>	<u>-</u>	<u>-</u>	<u>13,950</u>
Total capital assets, being depreciated	29,480	494	(85)	29,889
Less accumulated depreciation for:				
Buildings and improvements	(4,270)	(280)	-	(4,550)
Machinery, equipment, and furnishings	(3,676)	(482)	66	(4,092)
Infrastructure	<u>(6,548)</u>	<u>(279)</u>	<u>-</u>	<u>(6,827)</u>
Total accumulated depreciation	<u>(14,494)</u>	<u>(1,041)</u>	<u>66</u>	<u>(15,469)</u>
Total capital assets, being depreciated, net	14,986	(547)	(19)	14,420
Capital assets, not being depreciated:				
Land	22,594	-	-	22,594
Construction in progress	<u>58</u>	<u>50</u>	<u>(58)</u>	<u>50</u>
Total capital assets, not being depreciated	<u>22,652</u>	<u>50</u>	<u>(58)</u>	<u>22,644</u>
Governmental activities capital assets, net	<u>\$ 37,638</u>	<u>\$ (497)</u>	<u>\$ (77)</u>	<u>\$ 37,064</u>

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

Governmental Activities:	
General government	\$ 161
Public safety	451
Highways and streets	367
Culture and recreation	<u>62</u>
Total depreciation expense - governmental activities	<u>\$ 1,041</u>

10. Accounts Payable

Accounts payable represent 2013 expenditures paid after December 31, 2013.

11. Capital Lease Obligations

The Town is the lessee of certain equipment under capital leases expiring in various years through 2018. Future minimum payments under the capital leases consisted of the following as of December 31, 2013:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 188,663	\$ 11,750	\$ 200,413
2015	89,757	4,208	93,965
2016	32,629	1,772	34,401
2017	17,213	669	17,882
2018	1,255	344	1,599
Total	<u>\$ 329,517</u>	<u>\$ 18,743</u>	<u>\$ 348,260</u>

12. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 12/31/13</u>
Open Space	01/15/19	3.73%	\$ 705,000
Open Space	10/15/19	3.42%	1,200,000
Open Space and Safety Renovations	08/15/35	4.06%	<u>5,560,000</u>
Total			<u>\$ 7,465,000</u>

B. Future Debt Service

The annual payments to repay bonds payable outstanding as of December 31, 2013 are as follows:

Governmental Activities	Principal	Interest	Total
2014	\$ 650,000	\$ 298,538	\$ 948,538
2015	650,000	272,638	922,638
2016	650,000	247,038	897,038
2017	650,000	222,038	872,038
2018	645,000	196,606	841,606
2019 - 2023	1,960,000	681,363	2,641,363
2024 - 2028	1,140,000	360,020	1,500,020
Thereafter	<u>1,120,000</u>	<u>192,320</u>	<u>1,312,320</u>
Total	<u>\$ 7,465,000</u>	<u>\$ 2,470,561</u>	<u>\$ 9,935,561</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, 2013.

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2013, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 1/1/13	Additions	Reductions	Total Balance 12/31/13	Less Current Portion	Equals Long-Term Portion 12/31/13
<u>Governmental Activities</u>						
Bonds payable	\$ 8,115	\$ -	\$ (650)	\$ 7,465	\$ (650)	\$ 6,815
Other:						
Compensated absences	184	10	-	194	(19)	175
Capital leases	557	-	(227)	330	(189)	141
Net OPEB obligation	456	93	(7)	542	-	542
Totals	<u>\$ 9,312</u>	<u>\$ 103</u>	<u>\$ (884)</u>	<u>\$ 8,531</u>	<u>\$ (858)</u>	<u>\$ 7,673</u>

13. Deferred Inflows of Resources

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

The general fund deferred inflow of resources balance as of December 31, 2013 represents \$671,492 of unearned tax revenue.

14. Restricted Net Position

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

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

15. Fund Balances

The following is a summary of fund balances at December 31, 2013:

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable:			
Prepaid expenses	\$ 33,406	\$ -	\$ 33,406
Tax deeded property	1,914	-	1,914
Nonexpendable trust funds	-	370,107	370,107
Nonexpendable permanent funds	-	285,614	285,614
Total Nonspendable	35,320	655,721	691,041
Restricted:			
Expendable trust funds	-	126,958	126,958
Expendable permanent funds	-	18,146	18,146
Special revenue funds	-	717,519	717,519
Total Restricted	-	862,623	862,623
Committed:			
Flint Pond restoration	43,723	-	43,723
Compensated absences	28,337	-	28,337
Emergency municipal building and facility maintenance	74,851	-	74,851
Municipal transportation	11,272	-	11,272
Total Committed	158,183	-	158,183

(continued)

(continued)

	<u>General Fund</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Assigned:			
Encumbrances	246,869	-	246,869
Total Assigned	246,869	-	246,869
Unassigned:			
Remaining fund balance	2,328,425	-	2,328,425
Total Unassigned	2,328,425	-	2,328,425
Total Fund Balance	\$ 2,768,797	\$ 1,518,344	\$ 4,287,141

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	\$ 2,328,425
Deferred revenue	<u>671,492</u>
Tax Rate Setting Balance	<u>\$ 2,999,917</u>

17. Subsequent Events

Subsequent to December 31, 2013, 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	1.875%	04/14/14	12/31/14

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, 2013 was \$520,870, 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, 2013, was \$3,214,193. Contribution requirements for the year ended December 31, 2013, were as follows:

Town	\$ 520,870
Employees' Contributions	<u>292,831</u>
Total	<u>\$ 813,701</u>

20. Post-Employment Health Care Benefits

Other Post-Employment Benefits

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment health care benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of January 1, 2012, the actuarial valuation date, 7 retirees and 55 active employees met the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, and mental health/substance abuse to retirees and their covered dependents. All active

employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Non-union and union retirees with less than 20 years of service contribute 100% of the cost of the health plan.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's 2013 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending December 31, 2013, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2012.

Annual Required Contribution (ARC)	\$ 95,461
Interest on net OPEB obligation	18,255
Adjustment to ARC	<u>(21,231)</u>
Annual OPEB cost	92,485
Contributions made	<u>(7,011)</u>
Increase in net OPEB obligation	85,474
Net OPEB obligation - beginning of year	<u>456,370</u>
Net OPEB obligation - end of year	<u>\$ 541,844</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>Year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 92,485	7.6%	\$ 541,844
2012	\$ 87,517	4.4%	\$ 456,370
2011	\$ 137,337	5.7%	\$ 372,721
2010	\$ 129,347	3.0%	\$ 243,168
2009	\$ 121,515	3.1%	\$ 117,750

E. Funded Status and Funding Progress

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

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

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

F. Actuarial Methods and Assumptions

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

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

21. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three years.

22. Implementation of New GASB Standards

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

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

**December 31, 2013
(Unaudited)**

Other Post-Employment Benefits

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

See Independent Auditors' Report.