TOWN OF HANOVER, MASSACHUSETTS

FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2007

FINANCIAL REPORT PURSUANT TO OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2007

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TOWN OF HANOVER, MASSACHUSETTS

REPORT ON AUDIT OF FINANCIAL STATEMENTS

AND ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2006

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TIMOTHY M. CRAVEN
Certified Public Accountant

# INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of Hanover, Massachusetts

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hanover, Massachusetts , as of and for the year ended June 30, 2007 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's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I 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 basic 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of the Town of Hanover, Massachusetts at June 30, 2007and the changes in financial position and , where applicable, cash flows thereof, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have issued my report dated February 19, 2008, on my consideration of the Town of Hanover, Massachusetts' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of mu audit.

The management's discussion and analysis on pages 4 through 11 is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Hanover, Massachusetts' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The accompanying schedules of cash and taxes also are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Timothy M. Craven CPA

February 19, 2008

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TIMOTHY M. CRAVEN
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# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Selectmen
Town of Hanover, Massachusetts

I have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hanover, Massachusetts as of and for the year ended June 30, 2007, which collectively comprise the Town of Hanover, Massachusetts' basic financial statements and have issued my report thereon, dated February 19, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing my audit, I considered Town of Hanover, Massachusetts' internal control over financial reporting as a basis for designing mu auditing procedures for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Town of Hanover, Massachusetts' internal control over financial reporting. Accordingly, I do not express and opinion on the effectiveness of the Town of Hanover, Massachusetts' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees , in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Hanover, Massachusetts' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood thsat a misstatement of the Town of Hanover, Massachusetts' financial statement that is more than inconsequential will not be prevented or detected by the Town of Hanover, Massachusetts' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more that a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Hanover, Massachusetts' internal control.

My consideration of internal control over financial reporting was for th4 limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I considered to be material weaknesses as defined above.

## Compliance and other matters

As part of obtaining reasonable assurance about whether Town of Hanover, Massachusetts' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Selectmen, management and others within the Town, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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February 19, 2008

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TIMOTHY M. CRAVEN
Certified Public Accountant

# REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Selectmen
Town of Hanover, Massachusetts

## Compliance

I have audited the compliance of the Town of Hanover, Massachusetts with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The Town of Hanover, Massachusetts' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Town of Hanover, Massachusetts' management. My responsibility is to express an opinion on the Town of Hanover, Massachusetts' compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Hanover, Massachusetts' compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Town of Hanover, Massachusetts' compliance with those requirements.

In my opinion, Town of Hanover, Massachusetts complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

## Internal Control Over Compliance

The management of Town of Hanover, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Town of Hanover, Massachusetts' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Selectmen, management and others within the Town, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Timothy M. Craven PA

February 19, 2008

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As management of the Town of Hanover, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2007. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements.

**Financial Highlights**

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by $36,799,970 (net assets). Of this amount, $12,880,583 (unrestricted net assets) may be used to meet the government's on-going obligations to citizens and creditors.
- The government's total net assets increased by $2,343,079. This increase is a result of governmental revenues exceeding expenditures.
- As of the close of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of $9,471,347, an increase of $2,350,490 in comparison with the prior year. Community Preservation Act revenues in excess of expenditures were a significant part of the increase.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $3,140,079, or a 6.5% of total governmental expenditures.
- The Town's issued long-term debt of $2,675,000 for various water main projects, school renovation projects, and capital equipment.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Town of Hanover's basis financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes of the financial statements.

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the 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 period (i.e. uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions that are primarily supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, sewer, human services, health and sanitation, culture and recreation, pension benefits, employee benefits, interest, state and county charges and other.

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

**Governmental funds:** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the

government-wide financial statements, governmental fund statements focus on *near-term inflows 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 revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities.*

The Town of Hanover adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary Funds:** The Town of Hanover maintains two types of proprietary funds:

*Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water, ambulance, and food service operations.

**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 statement 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 the basic financial statements:** The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. The assets of governmental activities exceeded liabilities by $36,799,970 at the close of FY2007. Key components of the Town's governmental and business type financial position follow.

For the Town's governmental activities, assets exceeded liabilities by $28,480,996 at the close of fiscal year 2007.

| **Governmental Activities:** | Fiscal 2007 | Fiscal 2006 |
|---|---|---|
| **Assets:** | | |
| Current assets | $17,521,051 | $11,535,321 |
| Non current assets (excluding capital) | 14,280,492 | 14,045,756 |
| Capital assets: | 39,595,725 | 39,757,819 |
| **Total assets:** | **$71,397,268** | **$65,338,896** |
| **Liabilities:** | | |
| Current liabilities (excluding debt) | $ 6,562,040 | $ 3,207,265 |
| Noncurrent liabilities (excluding debt) | 17,415,534 | 17,392,100 |
| Current debt | 599,126 | 1,433,593 |
| Noncurrent debt | 17,339,572 | 17,665,444 |
| **Total liabilities** | **$42,916,272** | **$39,698,402** |

| **Net Assets:** | | |
|---|---|---|
| Capital assets net of related debt | $20,720,281 | $20,711,503 |
| Restricted | ( 1,583,446) | ( 1,166,599) |
| Unrestricted | 9,344,161 | 6,095,590 |
| **Total net assets** | **$28,480,996** | **$25,640,494** |

A significant portion of the Town's net assets, $39,595,725, (55%), reflects its investment in capital assets (i.e., land, buildings, infrastructure, machinery and equipment) less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens: consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

The unrestricted net assets $9,344,161 (33%), may be used to meet the government's on-going obligations to citizens and creditors.

For the Town's business type activities, assets exceeded liabilities by $8,318,974 at the close of fiscal year 2006.

| **Business Type Activities:** | Fiscal 2007 | Fiscal 2006 |
|---|---|---|
| **Assets:** | | |
| Current assets | $ 4,332,194 | $ 4,306,738 |
| Capital assets | 11,715,156 | 12,101,861 |
| **Total assets:** | **$16,047,262** | **$16,408,599** |
| **Liabilities:** | | |
| Current liabilities (excluding debt) | $ 767,735 | $ 1,341,472 |
| Current debt | 571,204 | 588,125 |
| Noncurrent debt | 6,389,349 | 5,622,605 |
| **Total liabilities** | **$ 7,728,288** | **$ 7,592,202** |
| **Net Assets:** | | |
| Capital assets net of related debt | $ 4,782,522 | $ 5,976,082 |
| Unrestricted | 3,536,422 | 2,840,315 |
| **Total net assets** | **$ 8,318,974** | **$ 8,816,397** |

Business type net assets of $4,782,552 (57%) represent investments in capital assets net of related debt. The remaining $ 3,536,422 (43%) is available to be used for the on-going operation of the Town's sewer and water enterprises.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets both for the governments as a whole, as well as for its separate governmental and business-type activities.

**Revenue and Expenses**

The governmental activities net assets increased by $2,840,502 during the current fiscal year.

The key elements of the governmental activities are as follows:

| **Governmental Activities:** | Fiscal 2007 | Fiscal 2006 |
|---|---|---|
| **Program Revenue:** | | |
| Charges for services | $ 2,469,821 | $ 2,227,566 |
| Operating grants and contributions | 12,787,108 | 11,705,841 |
| Capital grants and contributions | 162,142 | 66,835 |

| **Governmental Activities:** | Fiscal 2007 | Fiscal 2006 |
|---|---|---|
| **General Revenue:** | | |
| Real estate and personal property taxes | $27,656,568 | $26,429,912 |
| Motor vehicle and other excise taxes | 1,942,056 | 2,223,214 |
| Nonrestricted grants | 3,263,769 | 2,423,589 |
| Unrestricted investment income | 584,742 | 403,690 |
| Other revenues | 256,811 | 522,537 |
| **Total revenues:** | **$49,123,017** | **$46,012,184** |
| **Expenses:** | | |
| General Administration | $ 697,679 | $ 547,606 |
| Financial Administration | 868,772 | 822,362 |
| Community Development | 404,835 | 263,351 |
| Public safety | 6,763,963 | 6,544,012 |
| Education | 31,701,117 | 30,400,526 |
| Public works | 3,553,913 | 3,930,312 |
| Human services | 730,454 | 536,432 |
| Culture and recreation | 1,000,009 | 800,147 |
| Debt Service Interest | 1,000,931 | 984,849 |
| Intergovernmental | 423,521 | 424,802 |
| **Total expenses:** | **$47,145,194** | **$45,334,399** |
| **Net (Expense) Revenue:** | **$ 1,977,823** | **$ 677,785** |
| **Transfers:** | **$ 862,679** | **$ 770,703** |
| **Change in net assets:** | **$ 2,840,502** | **$ 1,448,488** |

Governmental expenses totaled $47,145,194 of which $15,419,071 (33%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled $33,703,946, primarily coming from property taxes, motor vehicle excise, lottery and other revenues.

Charges for services represent about 5% of governmental activities resources. The Town can exercise more control over this category of revenue than any other. Fees charged for services rendered that are set by Town Meeting, the Board of Selectmen, and other Town boards and committees are included in this category.

Operating grants and contributions account for 26% of the governmental activities resources. Most of these resources apply to education operations. These resources offset costs within the school department in addition to their general fund-operating budget.

Property taxes are the most significant revenue source for the Town's governmental activities. They comprise 56% of all resources.

Education is by far, the largest governmental activity of the Town. A total of $31,701,117 was expended for education, of which $13,108,798 was funded by program revenues. The remaining $18,592,319 was funded by taxes and other revenue.

Public safety is the second largest activity of the Town. $5,828,258 of general revenues was needed to cover their FY07 operating expenses.

Business-type activities net assets decreased by $497,423 during the current fiscal year.

The key elements of the business type activities are as follows:

| **Business Type Activities:** | Fiscal 2007 | Fiscal 2006 |
|---|---|---|
| **Program revenues:** | | |
| Charges for services | $3,835,637 | $4,198,289 |
| Nonoperating grants and contributions | 105,561 | 92,815 |
| **General revenues:** | | |
| Unrestricted investment income | $ 148,232 | $ 123,613 |
| **Total revenues** | **$4,089,430** | **$4,414,717** |
| **Expenses:** | **$3,725,379** | **$3,409,304** |
| **Net (Expense) Revenue** | **$ 364,051** | |
| **Transfers:** | **$ (861,474)** | **$ (770,703)** |
| **Change in net assets** | **$ (497,423)** | **$ 234,710** |

**Financial Analysis of the Government's Funds**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

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

At the end of the current fiscal year, the Town governmental funds reported combined ending fund balances totaling $9,471,347.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the unreserved fund balance of the general fund was $3,140,079 while the total fund balance was $7,696,410. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 7% of the total general fund expenditures, while total fund balance represents 18% of that same amount. Reservation of fund balances for encumbrances and continuing appropriations totaled $1,342,724.

**Financial Summary**

- Overall, general fund revenue increased 6% compared to FY06. This increase is primarily due to an increase in taxes. Intergovernmental revenue and user changes.

- Tax revenue continues to be the most significant revenue source for the Town, representing 59% of total general fund revenue. Tax revenue increase in accordance with the provisions of the Massachusetts sate law, which limits such increase to 2 ½ % over the preceding year plus and allowance for new growth. Tax revenue increased by $2,409,209% in FY 07.

- Intergovernmental revenue represents 30% of total general fund revenues. This includes state aid as well as $4,202,857 in payments made by the State to the Massachusetts Teacher's Retirement Association for teachers' pension benefits. Intergovernmental revenue increased by 27% from FY06.

- Motor vehicle revenue continued to be a strong source of revenue, although remaining flat when compared to FY06. Motor vehicle revenue represents 4% of the total general fund revenues.

- License and permit revenue totaled $585,616, reflecting home renovation and building activity in the Town.

- Expenditures in the general fund increased 3% as compared to FY06 with education and employee benefits being the primary contributors.

- Education continues to represent the largest category of general fund expenditures, approximating 50% in FY07. The Town is committed to providing a high-quality education through its public schools.

- Public Safety and Public Works represent a combined 17% of general fund expenditures. This reflects the Town's commitment to providing a safe, secure environment and essential public services.

- Debt service decreased slightly in FY07. Debt service costs in FY07 were 6% of total general fund expenditures, reflecting the Town's on-going commitment to its school building program, public safety facilities and recreation and cultural facilities.

- Employee benefits and pension costs increased from the prior year, continuing a trend of escalating costs.

The Town's general fund balance increased $1,483,963 in fiscal year 2007. This was actually better than expected, as intergovernmental, investment income, and fee revenue were higher than budgeted and employee benefits and snow removal expenses were lower than budgeted.

The Commonwealth of Massachusetts is obligated to provide school construction assistance for approved school projects. The assistance is paid annually to support the debt service payments over time. The Town was approved for a 59% reimbursement of approved construction costs.

The Town received $935,886 from the Massachusetts School Building Authority in FY2007.

**Financial and Management Policies and Systems**

Internal controls: Management of the Town is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the Town are protected from loss, theft or misuse and

to ensure that adequate accounting data is complied to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The Finance Director is responsible for evaluating the adequacy and effectiveness of the internal control structure and implementing improvements.

Because the cost of internal controls should not outweigh their benefits, the Town of Hanover's comprehensive framework of internal controls, has been designed to provide reasonable, rather than absolute assurance, that the financial statements will be free from material misstatement.

Budgetary controls: The Town Departments are responsible for preparing and presenting budget requests to the Advisory Committee. The Advisory Committee reviews all requests and Town wide issues and presents a budget to Town Meeting for approval.

The level of budgetary control is established by Town Meeting and this approval defines the level at which expenditures may not exceed appropriations. This level is typically at the individual department salary and expense level. The Town Accountant is responsible for ensuring all payroll and invoices are within the budgetary control level before authorizing the payment. Additional appropriations may be approved at subsequent Town Meetings. The Advisory Committee may approve during the year a transfer from a reserve fund established at Town Meeting. These controls ensure compliance with the budget approved by Town Meeting.

Cash management: Cash management is handled by the Town Treasurer. The Treasurer monitors the Town's cash flow and provides for the investment of Town funds. The Treasurer seeks to maximize the return on Town funds while maintaining adequate protection and liquidity of funds.

Quarterly tax billings and excellent collection rates have eliminated the need to borrow on a short-term basis to maintain cash flow. The Town's investment options are governed by Massachusetts General Laws and focus on safety, liquidity and yield.

Risk management: The Town is exposed to various risks of loss related to general liability, property and casualty, worker's compensation and unemployment compensation claims.

**General Fund Budgetary Highlights**

The difference between the original budget and the final budget was $61,602 was due primarily to changes to appropriations made at a Special Town Meeting held in May 2007.

**Capital Asset and Debt Administration**

In conjunction with the annual operating budget, the Town of Hanover annually prepares a capital budget for the upcoming fiscal year, and a five year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

**Capital assets:** The Town of Hanover's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to $51,310,881 (net of accumulated depreciation). This investment in capital assets includes land, buildings, water improvements, machinery and equipment, park facilities, highways, and bridges. The Town's investment in capital assets for the current year was decreased by $548,798.

**Debt Administration**

The Town maintains an "Aa3" bond rating from Moody's Investor Service. The Town continues to maintain strong market access for both note and bond sales. At the end of the fiscal year the Town had total bond debt outstanding of $25,968,049 of which $11,795,000 is related to school projects, $7,635,444

is for water projects, leaving a balance of $6,537,605 for other CIP related projects. The entire amount is classified as general obligation debt and is backed by the full faith and credit of the Town. The Town has no revenue bonds outstanding, which are bonds secured solely by specific revenue sources.

State statutes limit the amount of general obligation debt a government entity may issue to 5% of its total equalized property valuation as determined by the Massachusetts Department of Revenue. This limit could go to 10% with approval of a state oversight board. In addition, certain general obligation debt is exempt form the limit such as debt associated with school construction and many water improvement projects. The current debt limitation for the Town of Hanover is approximately $102,559,505, which is significantly in excess of the Town's outstanding general obligation debt that is subject to this limit.

Economic Factors and Next Year Budget and Rates

- The Commonwealth of Massachusetts essentially provided level funding to the Town for fiscal year 2008. This essentially means that all increases in cost, including education, will have to be covered by taxation and other fee and charges assessed.
- New property growth has been planned for in FY08, with the Town budgeting about $386,584 in new tax revenue. This equates to approximately $36 million in property value.
- Labor costs are budgeted to increase 3.5% as well as the overall budget.
- Health insurance costs are expected to increase, but not as dramatically as in prior years.

All of these factors were considered in preparing the Town's budget for fiscal year 2008.

At the end of the current fiscal year, the unreserved fund balance in the general fund is $3,140,079. The town has appropriated $1,416,458 of free cash to balance the fiscal year 2008 budget.

For Fiscal Year 2007, the Town's residential tax rate was $10.63 per thousand of valuation. The valuation of all Town property totaled $2,513,557,095. This is approximately the same as the FY 2006 valuation.

For Fiscal Year 2007, the Town's commercial tax rate was $11.01 per thousand of valuation.

Water rates were not increased in fiscal year 2007.

TOWN OF HANOVER, MASSACHUSETTS
TOWN-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2007

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 15,849,390 | $ 3,432,315 | $ 19,281,705 |
| Due from other governments | 14,935,777 | 6,311 | 14,942,088 |
| Taxes receivable | 971,075 | | 971,075 |
| Allowance for abatements | (239,338) | | (239,338) |
| Departmental receivables | 232,087 | | 232,087 |
| Excises receivable | 3,784 | | 3,784 |
| Betterment receivables | 48,768 | | 48,768 |
| Accounts receivable, net | | 893,480 | 893,480 |
| Capital assets: | | | |
| Land and construction in progress | 7,565,522 | 977,779 | 8,543,301 |
| Buildings | 38,021,085 | 6,414,692 | 44,435,777 |
| Improvements | 1,056,253 | | 1,056,253 |
| Infrastructure | 21,035,137 | 11,028,819 | 32,063,956 |
| Equipment | 2,471,790 | | 2,471,790 |
| Vehicles | 5,080,950 | 248,591 | 5,329,541 |
| Less accumulated depreciation | (35,635,012) | (6,954,725) | (42,589,737) |
| Total capital assets, net of depreciation | 39,595,725 | 11,715,156 | 51,310,881 |
| Total assets | 71,397,268 | 16,047,262 | 87,444,530 |
| **LIABILITIES** | | | |
| Accounts payable and accrued expenses | 2,372,965 | 142,411 | 2,515,376 |
| Bond anticipation notes | 3,870,000 | 500,000 | 4,370,000 |
| Deposits | 319,075 | 85 | 319,160 |
| Deferred revenues | 14,280,492 | | 14,280,492 |
| Long-term liabilities: | | | |
| Portion due or payable within one year: | | | |
| Bonds payable | 1,535,872 | 543,256 | 2,079,128 |
| Accrued interest | 63,254 | 27,948 | 91,202 |
| Portion due or payable after one year: | | | |
| Bonds payable | 17,339,572 | 6,389,349 | 23,728,921 |
| Compensated absences | 3,135,042 | 125,239 | 3,260,281 |
| Total liabilities | 42,916,272 | 7,728,288 | 50,644,560 |
| **NET ASSETS** | | | |
| Invested in capital assets, net of related debt | 20,720,281 | 4,782,552 | 25,502,833 |
| Restricted for: | | | |
| Capital projects | (1,583,446) | | (1,583,446) |
| Unrestricted | 9,344,161 | 3,536,422 | 12,880,583 |
| Total net assets | $ 28,480,996 | $ 8,318,974 | $ 36,799,970 |

See accompanying notes to the financial statements.

TOWN OF HANOVER, MASSACHUSETTS
TOWN-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

| Functions/Programs | Expenses | Indirect Expenses Allocation | Charges for services | Program revenues: Operating Grants and Contributions | Program revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets: Governmental Activities | Net (Expense) Revenue and Changes in Net Assets: Business-type Activities | Net (Expense) Revenue and Changes in Net Assets: Total |
|---|---|---|---|---|---|---|---|---|
| Governmental activities: | | | | | | | | |
| General administration | $ (564,604) | $ (133,075) | $ 302,386 | $ 2,533 | $ | $ (392,760) | $ | $ (392,760) |
| Financial Administration | (669,985) | (198,787) | 91,531 | | | (777,241) | | (777,241) |
| Community Development | (270,914) | (133,921) | 90,175 | 59,916 | | (254,744) | | (254,744) |
| Protection of persons and property | (5,604,778) | (1,159,185) | 566,564 | 369,141 | | (5,828,258) | | (5,828,258) |
| Education | (24,717,387) | (6,983,730) | 858,981 | 12,249,817 | | (18,592,319) | | (18,592,319) |
| Public works | (2,940,423) | (613,490) | 274,093 | 102 | 1,687 | (3,278,031) | | (3,278,031) |
| Human services | (604,449) | (126,005) | 114,617 | 63,661 | 160,455 | (391,721) | | (391,721) |
| Culture & recreation | (911,903) | (88,106) | 171,474 | 41,938 | | (786,597) | | (786,597) |
| Debt service interest | (1,000,931) | | | | | (1,000,931) | | (1,000,931) |
| Intergovernmental | (423,521) | | | | | (423,521) | | (423,521) |
| Total governmental activities | (37,708,895) | (9,436,299) | 2,469,821 | 12,787,108 | 162,142 | (31,726,123) | | (31,726,123) |
| Business-type activities: | | | | | | | | |
| Water department | (2,985,147) | | 2,619,992 | | | | (365,155) | (365,155) |
| Ambulance fund | (44,871) | | 595,510 | | | | 550,639 | 550,639 |
| Food services | (695,361) | | 620,135 | 105,561 | | | 30,335 | 30,335 |
| Total business-typs activities | (3,725,379) | 0 | 3,835,637 | 105,561 | 0 | | 215,819 | 215,819 |
| Total government | $ (41,434,274) | $ (9,436,299) | $ 6,305,458 | $ 12,892,669 | $ 162,142 | (31,726,123) | 215,819 | (31,510,304) |
| General revenues: | | | | | | | | |
| Property taxes | | | | | | 27,656,568 | | 27,656,568 |
| Excise taxes | | | | | | 1,942,056 | | 1,942,056 |
| Intergovernmental | | | | | | 3,264,974 | | 3,264,974 |
| Penalties & interest | | | | | | 81,055 | | 81,055 |
| Unrestricted investment earnings | | | | | | 584,742 | 148,231 | 732,973 |
| Miscellaneous | | | | | | 175,756 | | 175,756 |
| Transfers | | | | | | 861,474 | (861,474) | 0 |
| Total general revenues | | | | | | 34,566,625 | (713,243) | 33,853,382 |
| Change in net assets | | | | | | 2,840,502 | (497,424) | 2,343,078 |
| Net assets - beginning | | | | | | 25,640,494 | 8,816,397 | 34,456,891 |
| Net assets - ending | | | | | | $ 28,480,996 | $ 8,318,973 | $ 36,799,969 |

See accompanying notes to the financial statements.

TOWN OF HANOVER, MASSACHUSETTS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

| | General Fund | Community Preservation Fund | Capital Projects Fund | Other Funds | Governmental Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ 9,662,212 | $ 1,849,816 | $ 2,364,555 | $ 1,972,807 | $ 15,849,390 |
| Taxes receivable | 964,009 | 7,066 | | | 971,075 |
| Allowance for abatements | (239,338) | | | | (239,338) |
| Excise receivable | 232,087 | | | | 232,087 |
| Due from other governments | 13,118,886 | 631,824 | | 1,185,067 | 14,935,777 |
| Departmental receivables | | | | 48,768 | 48,768 |
| Betterment receivables | | | | 3,784 | 3,784 |
| Total assets | $ 23,737,856 | $ 2,488,706 | $ | $ 3,210,426 | $ 31,801,543 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | $ 2,101,031 | $ 25,134 | $ 78,001 | $ 168,799 | $ 2,372,965 |
| Bond anticipation notes payable | | | 3,870,000 | | 3,870,000 |
| Deposits | | | | 319,075 | 319,075 |
| Deferred revenues | 13,940,415 | 638,890 | | 1,188,851 | 15,768,156 |
| Total liabilities | 16,041,446 | 664,024 | 3,948,001 | 1,676,725 | 22,330,196 |
| Fund balances: | | | | | |
| Reserved for encumbrances | 1,342,724 | 76,530 | | | 1,419,254 |
| Reserved for rate stabilization | 1,416,458 | | | | 1,416,458 |
| Reserved for petty cash | 850 | | | 13,050 | 13,900 |
| Unreserved, reported in: | | | | | |
| General fund | 3,140,079 | | | | 3,140,079 |
| Designated for subsequent year appropriations | 1,796,299 | | | | 1,796,299 |
| Special revenue funds | | 340,290 | | 1,520,651 | 1,860,941 |
| Designated for subsequent year appropriations | | 1,407,862 | | | |
| Capital projects funds | | | (1,583,446) | | (1,583,446) |
| Total fund balances | 7,696,410 | 1,824,682 | (1,583,446) | 1,533,701 | 9,471,347 |
| Total liabilities and fund balances | $ 23,737,856 | $ 2,488,706 | $ 2,364,555 | $ 3,210,426 | $ 31,801,543 |

See accompanying notes to the financial statements.

TOWN OF HANOVER, MASSACHUSETTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET ASSETS
JUNE 30, 2007

| | | |
|---|---|---|
| **Total fund balance - governmental funds** | | $ 9,471,347 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Other long-term assets (receivables) are not available to pay current-period expenditures, and, therefore, are deferred in the funds. These include real estate, personal property, and excise taxes. | | 1,487,664 |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet, net of accumulated depreciation of $35,635,012 | | 39,595,725 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and they are not reported as liabilities in the funds. Long-term liabilities at year-end consist of: | | |
| Bonds payable | $ 18,875,444 | |
| Accrued interest on bonds | 63,254 | |
| Compensated absences (sick pay and vacations) | 3,135,042 | (22,073,740) |
| **Total net assets - governmental activities** | | $ 28,480,996 |

See accompanying notes to the financial statements.

TOWN OF HANOVER, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

| | General Fund | Capital Projects Fund | Community Preservation Funds | Other Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Property taxes | $ 26,738,703 | $ | $ 629,455 | $ | $ 27,368,158 |
| Excise taxes | 1,940,493 | | | 1,563 | 1,942,056 |
| Departmental | 586,298 | | | 1,803,957 | 2,390,255 |
| Intergovernmental | 13,530,329 | 160,454 | 599,138 | 1,241,882 | 15,531,803 |
| Fees | 585,616 | | | | 585,616 |
| Fines | 126,899 | | | | 126,899 |
| Penalties & interest | 81,055 | | | | 81,055 |
| Reimbursement of allocated costs | 862,679 | | | | 862,679 |
| Unrestricted investment earnings | 584,742 | | 40,370 | 17,973 | 643,085 |
| Miscellaneous | 116,533 | | | 49,146 | 165,679 |
| Total revenues | 45,153,347 | 160,454 | 1,268,963 | 3,114,521 | 49,697,285 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General administration | 728,166 | | | 37,613 | 765,779 |
| Financial Administration | 634,460 | | 54,700 | 15,185 | 704,345 |
| Community development | 200,547 | | | 257,999 | 458,546 |
| Protection of persons and property | 5,073,287 | 2,100 | | 2,379,405 | 7,454,792 |
| Education | 21,877,162 | 83,340 | | 67,870 | 22,028,372 |
| Public works | 2,478,251 | 155,095 | | 24,612 | 2,657,958 |
| Human services | 418,656 | 159,872 | | 188,880 | 767,408 |
| Insurance | 526,619 | | | 5,461 | 532,080 |
| Culture & recreation | 222,379 | | | | 222,379 |
| Intergovernmental | 423,521 | | | | 423,521 |
| Employee bebefits | 8,756,401 | | | | 8,756,401 |
| Debt service: | | | | | |
| Principal | 1,415,872 | | | | 1,415,872 |
| Interest | 990,398 | | | | 990,398 |
| Capital outlay | | 1,421,895 | | | 1,421,895 |
| Total expenditures | 43,745,719 | 1,822,302 | 54,700 | 2,977,025 | 48,599,746 |
| Excess (deficiency of revenues over (under) expenditures | 1,407,628 | (1,661,848) | 1,214,263 | 137,496 | 1,097,539 |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Bond proceeds | | 1,245,000 | | | 1,245,000 |
| Transfers from other funds | 85,321 | | | 8,986 | 94,307 |
| Transfers to other funds | (8,986) | | | (77,372) | (86,358) |
| Net other financing sources (uses) | 76,335 | 1,245,000 | | (68,386) | 1,252,949 |
| Net change in fund balance | 1,483,963 | (416,848) | 1,214,263 | 69,110 | 2,350,488 |
| Fund balances - July 1, 2006 | 6,212,447 | (1,166,598) | 610,419 | 1,464,591 | 7,120,859 |
| Fund balances - June 30, 2006 | $ 7,696,410 | $ (1,583,446) | $ 1,824,682 | $ 1,533,701 | $ 9,471,347 |

See accompanying notes to the financial statements.

TOWN OF HANOVER, MASSACHUSETTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO TOWN-WIDE STATEMENT OF ACTIVITIES
JUNE 30, 2007

| | |
|---|---|
| **Total net change in fund balances - governmental funds** | $ 2,350,488 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Revenues in the statements of activities that do not provide current financial resources are not reported as revenues in the funds. These include the recognition of unavailable deferred revenue of $259,399 | 259,399 |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation ($1,583,988) exceed capitalized items ($1,421,895 in the period | (162,093) |
| Proceeds from the issuance of long term debt provides curent financial resources and is reflected as a financiang source in governmentyal funds | (1,245,000) |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | 1,415,872 |
| In the statement of activities, certain operating expenses - compensated absences (sick leave and vacations) - are measured by the amounts earned during the year. This year, vacation and sick leave used exceeded the amounts earned by $211,303 | 211,303 |
| Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expenses is recognized as the interest accrues, regardless of when it is due. | 10,533 |
| **Changes in net assets of governmental activities** | $ 2,840,502 |

See accompanying notes to the financial statements.

TOWN OF HANOVER, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET TO ACTUAL - BUDGETARY BASIS - GENERAL FUND
YEAR ENDED JUNE 30, 2007

| | Budgeted amounts | | Actual (Budgetary Basis) | Variance with Final Budget Positive - (Negative) |
|---|---|---|---|---|
| | Original | Final | | |
| **REVENUES** | | | | |
| Property Taxes | $ 26,385,448 | $ 26,385,448 | $ 26,385,448 | $ 0 |
| Motor vehicle & boat excises | 1,900,000 | 1,900,000 | 1,940,493 | 40,493 |
| Penalties & interest | 45,000 | 45,000 | 81,055 | 36,055 |
| Fees | 431,500 | 431,500 | 559,237 | 127,737 |
| Licenses & permits | 497,000 | 497,000 | 586,298 | 89,298 |
| Fines | 115,000 | 115,000 | 126,899 | 11,899 |
| Investment income | 330,000 | 330,000 | 516,445 | 186,445 |
| Intergovernmental | 9,189,253 | 9,189,253 | 9,327,472 | 138,219 |
| Miscellaneous | 175,000 | 175,000 | 142,912 | (32,088) |
| Total revenues | 39,068,201 | 39,068,201 | 39,666,259 | 598,058 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General government | 708,401 | 738,704 | 703,566 | (35,138) |
| Financial administration | 688,271 | 686,329 | 659,946 | (26,383) |
| Community development | 224,366 | 226,302 | 221,384 | (4,918) |
| Protection of persons and property | 5,240,245 | 5,283,260 | 5,101,330 | (181,930) |
| Education | 22,009,584 | 22,072,262 | 22,067,455 | (4,807) |
| Public Works | 2,817,931 | 2,821,967 | 2,469,340 | (352,627) |
| Human services | 484,633 | 490,109 | 420,900 | (69,209) |
| Culture & recreation | 532,576 | 532,576 | 528,902 | (3,674) |
| Intergovernmental | 437,579 | 437,579 | 423,521 | (14,058) |
| Insurance and employee benefits | 5,932,632 | 5,848,732 | 4,878,167 | (970,565) |
| Debt service | 2,399,821 | 2,399,821 | 2,345,008 | (54,813) |
| Total expenditures | 41,476,039 | 41,537,641 | 39,819,519 | (1,718,122) |
| Excess (deficiency) of revenues over expenditures | (2,407,838) | (2,469,440) | (153,260) | 2,316,180 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers in | 918,321 | 946,785 | 946,785 | 0 |
| Transfers out | (55,000) | (55,000) | (63,986) | (8,986) |
| Other available funds | 1,544,517 | 1,577,655 | (729,539) | (2,307,194) |
| Total other financing sources (uses) | 2,407,838 | 2,469,440 | 153,260 | (2,316,180) |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | $ 0 | $ 0 | $ 0 | $ 0 |

See accompanying notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS
RECONCILIATION OF GENERAL FUND BUDGETARY REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - TO GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ON THE GAAP BASIS
YEAR ENDED JUNE 30, 2007

| | REVENUES | EXPENDITURES | OTHER FINANCING SOURCES (USES) |
|---|---|---|---|
| Governmental fund general fund - GAAP basis. | $ 45,153,347 | $ 43,745,719 | $ 76,335 |
| Non-budgeted on-behalf payments made by the Commonwealth of Massachusetts to the Massachusetts Teachers' Retirement Board. | (4,202,857) | (4,202,857) | |
| Use of available fund to balance the budget | | | (729,539) |
| Transfer from the Ambulance business-type activity fund. | (574,679) | | 574,679 |
| Transfer from trust fund | | | |
| Transfer from the Water Department business-type activity fund. | (286,785) | | 286,785 |
| Transfer to stabilization fund | | | (55,000) |
| Interest income on the Town's stabilization reserve fund which is not budgeted in the general fund. | (68,296) | | |
| Net effect of GAAP accounting for encumbrances. | | 276,657 | |
| Adjustment for revenue recognition on the modified accual basis. | (354,471) | | |
| | $ 39,666,259 | $ 39,819,519 | $ 153,260 |

See accompanying note to the financial statements.

TOWN OF HANOVER, MASSACHUSETTS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

| | Water Department | Ambulance Fund | Food Services | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 2,630,191 | $ 683,535 | $ 118,589 | $ 3,432,315 |
| Due from other governments | | | 6,311 | 6,311 |
| Accounts receivable, net | 745,601 | 147,879 | | 893,480 |
| Total current assets: | 3,375,792 | 831,414 | 124,900 | 4,332,106 |
| Capital assets: | | | | |
| Land and construction in progress | 977,779 | | | 977,779 |
| Buildings | 6,414,692 | | | 6,414,692 |
| Infrastucture | 11,028,819 | | | 11,028,819 |
| Vehicles | | 248,591 | | 248,591 |
| Less: accumulated depreciation | (6,780,430) | (174,295) | | (6,954,725) |
| Total capital assets, net of depreciation | 11,640,860 | 74,296 | | 11,715,156 |
| Total assets | 15,016,652 | 905,710 | 124,900 | 16,047,262 |
| **LIABILITIES** | | | | |
| Current liabilities | | | | |
| Accounts payable | 129,042 | | 13,369 | 142,411 |
| Current portion of long-term debt | 543,256 | | | 543,256 |
| Interest payable | 27,949 | | | 27,949 |
| Bond anticipation notes payable | 340,000 | 160,000 | | 500,000 |
| Deposits | 85 | | | 85 |
| Total current liabilities | 1,040,332 | 160,000 | 13,369 | 1,213,701 |
| Non-current liabilities: | | | | |
| Long-term portion of long-term debt | 6,389,349 | | | 6,389,349 |
| Compensated absences | 92,823 | | 32,416 | 125,239 |
| Total non-current liabilities | 6,482,172 | | 32,416 | 6,514,588 |
| Total liabilities | 7,522,504 | 160,000 | 45,785 | 7,728,289 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 4,708,255 | 74,296 | | 4,782,551 |
| Unrestricted | 2,785,893 | 671,414 | 79,115 | 3,536,422 |
| Total net assets | $ 7,494,148 | $ 745,710 | $ 79,115 | $ 8,318,973 |

See accompanying notes to the financial statements.

TOWN OF HANOVER, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

| | Water Department | Ambulance Fund | Food services | Total |
|---|---|---|---|---|
| **OPERATING REVENUES** | | | | |
| Charges for services | $ 2,619,992 | $ 595,511 | $ | $ 3,215,503 |
| Food service sales | | | 620,135 | 620,135 |
| Total operating revenues | 2,619,992 | 595,511 | 620,135 | 3,835,638 |
| **OPERATING EXPENSES** | | | | |
| Payroll | 1,110,128 | | 333,844 | 1,443,972 |
| Supplies and materials | 930,704 | 15,152 | 361,517 | 1,307,373 |
| Other operating costs | 288,032 | | | 288,032 |
| Allocated costs | 286,795 | 574,679 | | 861,474 |
| Depreciation | 356,986 | 29,719 | | 386,705 |
| Total operating expenses | 2,972,645 | 619,550 | 695,361 | 4,287,556 |
| Operating income (loss) | (352,653) | (24,039) | (75,226) | (451,918) |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| Grants income | | | 105,561 | 105,561 |
| Investment income | 148,232 | | | 148,232 |
| Interest expense | (299,299) | | | (299,299) |
| Total nonoperating revenues (expenses) | (151,067) | | 105,561 | (45,506) |
| Change in net assets | (503,720) | (24,039) | 30,335 | (497,424) |
| Total net assets - July 1, 2006 | 7,997,868 | 769,749 | 48,780 | 8,816,397 |
| Total net assets - June 30, 2007 | $ 7,494,148 | $ 745,710 | $ 79,115 | $ 8,318,973 |

See accompanying notes to the financial statements.

TOWN OF HANOVER, MASSACHUSETTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 20, 2007

| | Water Department | Ambulance Fund | Food Services | Total |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Received from user charges | $ 2,618,633 | $ 594,781 | $ 620,135 | $ 3,833,549 |
| Payments to employees for services | (1,102,103) | | (341,581) | (1,443,684) |
| Payments to suppliers for good and services | (1,219,602) | (20,165) | (321,742) | (1,561,509) |
| Transfers to other funds for allocated costs | (286,795) | (574,679) | | (861,474) |
| Net cash provided (used) by operating activities | 10,133 | (63) | (43,188) | (33,118) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Nonoperating grants received | | | 74,607 | 74,607 |
| Net cash provided (used) by noncapital financing activities | | | 74,607 | 74,607 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Principal paid on bonds | (463,174) | | | (463,174) |
| Principal received on bond anticipation notes | 1,270,000 | | | 1,270,000 |
| Net payment on short term debt | (685,000) | | | (685,000) |
| Interest paid on bonds | (283,494) | | | (283,494) |
| Acquisition of fixed assets | | | | 0 |
| Net cash provided (used) by capital and related financing activities | (161,668) | | | (161,668) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Investment income | 148,232 | | | 148,232 |
| Net cash provided (used) by investing activities | 148,232 | | | 148,232 |
| Net increase in cash and cash equivalents | (3,303) | (63) | 31,419 | 28,053 |
| Cash and cash equivalents - July 1, 2006 | 2,633,494 | 683,598 | 87,170 | 3,404,262 |
| Cash and cash equivalents - June 30, 2007 | $ 2,630,191 | $ 683,535 | $ 118,589 | $ 3,432,315 |
| **Reconciliation of operating (loss) to net cash used by operating activities:** | | | | |
| Operating (loss) | $ (352,653) | $ (24,039) | $ (75,226) | $ (451,918) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Commodities used | | | 29,813 | 29,813 |
| Depreciation | 356,986 | 29,719 | | 386,705 |
| Changes in assets and liabilities: | | | | |
| Accounts payable | (6,781) | | | |
| Receivables | 4,556 | (729) | | 3,827 |
| Compensated absences | 8,025 | | (7,737) | 288 |
| Accrued liabilities | | (5,014) | 9,962 | 4,948 |
| Net cash provided (used) by operating activities | $ 10,133 | $ (63) | $ (43,188) | $ (33,118) |

**NONCASH NONCAPITAL FINANCING ACTIVITIES**
During the year, the Town received $29,813 of food commodities from the U.S. Department of Agriculture.

See accompanying notes to the financial statements.

TOWN OF HANOVER, MASSACHUSETTS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005

| | Private - purpose Trusts | Agency Funds |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 375,592 | $ 706,496 |
| Investments | 350,065 | |
| Total assets | 725,657 | $ 706,496 |
| **LIABILITIES** | | |
| Deposits | | $ 706,496 |
| Total liabilities | | $ 706,496 |
| **NET ASSETS, held for specific purposes** | $ 725,657 | |

See accompanying notes to the financial statements.

TOWN OF HANOVER, MASSACHUSETTS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2005

| | Private - purpose Trusts |
|---|---|
| **ADDITIONS** | |
| Contributions | $ 32,911 |
| Investment income: | |
| Interest and dividends | 19,751 |
| Net appreciation in fair value of investments | 36,324 |
| Net investment loss | 56,075 |
| **Total additions** | 88,986 |
| **DEDUCTIONS** | |
| Transfer to other funds | 7,949 |
| Miscellaneous expenses | 16,812 |
| **Total deductions** | 24,761 |
| Change in net assets | 64,225 |
| Net assets - July 1, 2004 | 661,432 |
| Net assets - June 30, 2005 | $ 725,657 |

See accompanying notes to the financial statements.

1. Summary of significant accounting policies:

The accounting and reporting framework and the more significant accounting principles and practices of the Town of Hanover, Massachusetts, (Town) are discussed in subsequent sections of this Note. The remained of the Notes are organized to provide explanations, including required disclosures, of the Town's financial activities for the fiscal year ended June 30, 2007.

(a) Reporting entity:

The basic financial statements present information on organizations and activities of the Town of Hanover, Massachusetts. The criteria, as defined by GASB codification 2100, for inclusion of organizations and activities in the oversight entity's general-purpose financial statements are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability over fiscal matters and scope of public service. The inclusion of organizations and activities in the Town's basic financial statements does not affect their separate legal standing. These organizations and activities include the Town's Water Department and the Public School System, since the Town controls their operations.

The operations of the North River Collaborative, the Hanover Housing Authority, the South Shore Regional School District and the Plymouth County Claims Trust Fund are not part of the defined reporting entity and therefore, are not included in the general-purpose financial statements of the Town. These organizations are excluded because none falls within the oversight responsibility of the Town, they are not subject to the financial controls of the Town, and no financial interdependency exists.

(b) Government-wide and fund financial statements:

Town-wide financial statements:

The town-wide financial statements include the statement of net assets and the statement of activities. These financial statements report financial information for the Town as a whole excluding fiduciary activities such as private-purpose trust funds and agency funds. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charges to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services, which report certain fees, fines and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions, which finance annual operating including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

(c) Measurement focus, basis of accounting, and financial statement presentation:

The financial statements of the Town are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Town's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal elimination does not include utility and certain other services provided by Town departments. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due. Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when received in cash.

1. Summary of significant accounting policies - continued:

(c) Measurement focus, basis of accounting, and financial statement presentation - continued:

Operating income reported in proprietary funds financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

(d) Fund types and major funds:

Governmental funds:

The Town reports the following major governmental funds:

General Fund - reports as the primary fund of the Town. This fund is used to account for all financial resources not reported in other funds.

Capital Projects Fund - reports all activities related to the acquisition, construction, or rehabilitation of capital assets whose costs are principally funds through long-term debt.

Proprietary funds:

The Town reports the following major enterprise funds:

Water Department - accounts for water treatment and distribution.

Food services fund - account for activities related to the Town's school lunch program.

Ambulance fund - accounts for activity related to the operation of the Town's ambulance service. Certain costs, principally personnel related are borne by the general fund, as all personnel involved in the delivery of ambulance services are also committed in the area of fire suppression.

Other fund types:

Private purpose trust funds - accounts for activities of trust funds under Town control for which the primary beneficiaries of the funds are individuals.

Agency fund - accounts for the fiduciary assets held by the Town in a custodial capacity as an agent or on behalf of others. The Town's agency fund is used to account for various deposits and escrow monies.

(e) Encumbrances:

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. Open encumbrances at year-end are reported as reservations of fund balances. Encumbrances do not constitute expenditures or liabilities.

(f) Investments:

Investments are stated at fair value.

(g) Inventory:

Inventory items (materials and supplies) are recorded as expenditures when purchased (purchase method).

(h) Retirement plans:

The Town participates in a defined benefit pension plan under the Plymouth County Retirement Association for all full-time Town employees, except for School Department teaching staff. The School Department teaching staff is eligible to participate in the Commonwealth of Massachusetts Teachers' Retirement System.

1. Summary of significant accounting policies - continued:

(i) Capital assets, depreciation, and amortization:

The Town's property, plant and equipment, and infrastructure assets with useful lives of more than one year are stated at historical, or estimated historical, cost and comprehensively reported in the government-wide financial statements. The Town maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in their respective fund. Donated fixed assets are stated at their fair value on the date donated. The Town generally capitalizes assets with cost of $100,000 or more as purchase and construction outlays occur. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful live, in years, for depreciable assets are as follows:

| | |
|---|---|
| Buildings and improvements | 40 |
| Infrastructure | 40 - 50 |
| Vehicles | 5 - 15 |
| Equipment | 5 - 10 |

(j) Compensated absences:

Employees earn vacation and sick leave as they provide services in accordance with various departmental policies and contractual agreements. School Department and other Town employees may accumulate unused sick leave and upon retirement or death, be compensated for certain amounts at their then rates of pay. Certain School Department employees may accumulate unused vacation time earned and, upon retirement, termination or death, are compensated for certain amounts at their then rates of pay. Compensated absences are reported as accrued in the government-wide and proprietary financial statements. Government funds reports only matured compensated absences payable to currently terminating employees and are included in accounts payable and accrued expenses.

(k) Property, plant and equipment - business-type activities:

The cost of property, plant and equipment of the business activities is capitalized, and assets are depreciated on a straight-line basis over their useful lives, in years, as follows:

| | |
|---|---|
| Buildings, improvements, and infrastructure | 20 - 45 |
| Machinery & Equipment | 7 - 20 |
| Vehicles | 5 - 15 |

2. Property taxes:

Real and personal property taxes are based on values assessed as of each January 1 and are due on the subsequent August 1, November 1, February 1 and May 1. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to interest and penalties. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables, net of a provision for abatements and exemptions, in the fiscal year of the levy. Property tax revenues are recorded in accordance with the modified accrual basis of accounting described in Note 1(c).

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2-1/2% of the value of all taxable property in the Town. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2%, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a Town-wide referendum vote.

3. Budgetary accounting:

The Town prepares its budget on a basis of accounting that differs from accounting principles generally accepted in the United States of America (GAAP). The statement of revenues, expenditures, and changes in fund balances- budget to actual - budgetary basis - general fund presents a comparison of the legally adopted budget with actual data on a budgetary basis.

The major differences between the budgetary basis of accounting and GAAP are that:

(1) Tax revenues are recorded when levied and other revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

(2) Encumbrances related to current year appropriations are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP).

(3) The Town does not budget either the revenue or expenditure related to the Commonwealth of Massachusetts' on-behalf payment to the Massachusetts Teachers Retirement Board related to the Town's teaching staff.

(4) Investment income earned on stabilization fund reserve is not budgeted as a revenue item in the general fund (budget) as opposed to being recorded as revenue in the general fund (GAAP).

The budgets for all departments and operations of the Town are prepared under the direction of the Advisory Committee and approved by Town Meeting vote. Supplemental appropriations and transfers between budget line items (except Advisory Committee reserve fund transfers) must be approved by Town Meeting or Special Town Meeting vote.

4. Cash and temporary investments:

The Town maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is reflected on the general-purpose financial statements under the caption "cash and temporary investments." The method of allocating interest earned on pooled cash and temporary investments among governmental fund types provides that, unless otherwise restricted, all interest is recorded in the General Fund. The interest earnings attributable to each fund type are included under "investment income." In addition, separate investments are maintained for certain funds and are reflected in the general-purpose financial statements in the same manner.

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. Government or Agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust.

The composition of the Town's deposits and investments fluctuates depending primarily on the timing of real estate tax receipts and operating and capital outlays throughout the year.

In addition, the Town's fiduciary fund types have additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

Cash and temporary investments:

At year-end, the carrying amount of the Town's deposits was $20,463,984 (including petty cash of $13,900). Of this balance, $853,087 was covered by federal depository insurance, and $19,610,897 was uninsured and uncollateralized.

Investments:

The Town's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Town's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Town's name.

| Description | Fair Value | Category |
|---|---|---|
| Corporate stocks | $ 350,065 | 2 |

5. Bonds and notes payable:

Chapter 44, Section 10, of the Massachusetts General Laws permits the issuance of bonds up to 5% of the equalized valuation, plus an additional amount which would bring the total up to, but less than, 10% with the approval of the Emergency Finance Board.
The following is a computation of the legal debt margin as of June 30, 2007.

| | | |
|---|---|---|
| Equalized valuation – personal property and real estate, January 1, 2006 | | $ 2,591,082,200 |
| Debt limit – 5.0% of equalized valuation | | $ 129,554,110 |
| Total debt (including authorized and unissued of $9,032,000) | $ 35,000,049 | |
| Less debt outside debt limit | ( 8,005,444) | 26,994,605 |
| Legal debt margin | | $ 102,559,505 |

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2007.

| | |
|---|---|
| Bonds payable at July 1, 2006 | $ 25,172.095 |
| Bonds issued | 2,675,000 |
| Principal payments | (1,879,046) |
| Bonds payable at June 30, 2007 | $ 25,968,049 |

As of June 30, 2007, the Town had the following outstanding long-term debt:

| | Date of Issue | Fiscal Year of Maturity | Original Principal Amount | Interest Rate | Amount Outstanding at June 30, 2007 |
|---|---|---|---|---|---|
| Inside debt limit: | | | | | |
| General Purpose | 5/15/98 | 2017 | $ 1,975,500 | 4.50-4.75% | $ 325,000 |
| Police Station Construction | 5/15/98 | 2017 | 3,280,000 | 4.50-4.90% | 1,710,000 |
| General Purpose | 5/15/00 | 2018 | 1,620,000 | 5.35-7.80% | 525,000 |
| School Reconstruction | 6/15/01 | 2021 | 14,850,000 | 4.00-5.00% | 11,795,000 |
| Library Reconstruction | 6/15/01 | 2021 | 2,390,000 | 4.00-5.00% | 1,640,000 |
| General Purpose | 6/15/02 | 2012 | 2,315,000 | 3.00-3.875% | 515,000 |
| Stormwater Management | 11/26/02 | 2023 | 189,825 | 3.0% | 157,605 |
| General Purpose | 6/15/04 | 2019 | 465,000 | 3.25-4.50% | 260,000 |
| General Purpose | 8/15/06 | 2010 | 1,405,000 | 4.00% | 1,405,000 |
| | | | | | 18,332,605 |
| Outside debt limit: | | | | | |
| Well and Mains | 5/15/98 | 2015 | 744,500 | 4.50-4.75% | 190,000 |
| Landfill Closure | 5/15/00 | 2018 | 1,060, 000 | 5.30-7.80% | 730,000 |
| Septic Betterment | 10/25/00 | 2018 | 195,676 | None | 130,444 |
| Plant Design and Mains | 6/15/02 | 2012 | 1,100,000 | 3.00-3.875% | 550,000 |
| Plant Construction and Mains | 6/15/04 | 2024 | 5,635,000 | 3.25-4.80% | 4,765,000 |
| Water Building and Mains | 8/15/06 | 2017 | 1,270,000 | 4.00% | 1,270,000 |
| | | | | | 7,635,444 |
| | | | | | $ 25,968,049 |

Debt service to maturity consists of the following:

| | Principal | Interest | Total |
|---|---|---|---|
| For the year ending June 30, 2008 | $ 2,134,128 | $ 1,164,667 | $ 3,298,795 |
| 2009 | 2,119,252 | 1,079,580 | 3,198,832 |
| 2010 | 2,004,464 | 994,706 | 2,999,170 |
| 2011 | 1,944,726 | 913,786 | 2,858,512 |
| 2012 | 1,909,995 | 824,150 | 2,734,145 |
| Thereafter | 15,855,484 | 3,866,302 | 19,721,786 |
| | $ 25,968,049 | $ 8,843,191 | $ 34,811,240 |

5. Bonds and notes payable - continued:

Bonds authorized and unissued at June 30, 2007 consist of the following:

| | |
|---|---|
| Inside debt limit: | |
| Land Acquisition | $ 2,810,000 |
| School Remodeling and Repairs | 3,985,000 |
| Vehicles and equipment | 777,000 |
| Building Repairs & Design | 240,000 |
| Bridge Repairs | 450,000 |
| Road maintenance | 400,000 |
| | 8,662,000 |
| Outside debt limit: | |
| Water Mains | 30,000 |
| Water Mains | 230,000 |
| Water Plants | 110,000 |
| | 370,000 |
| | $ 9,032,000 |

The Town is a member of the Massachusetts Bay Transportation Authority and the South Shore Regional School District. The following table sets forth the Town's fiscal 2007 assessment for debt and operations:

| Overlapping Entity | Estimated Percentage | Assessment |
|---|---|---|
| Massachusetts Bay Transportation Authority | - | $ 84,948 |
| South Shore Regional School District | 12% | $ 429,615 |

6. Retirement plans:

Town employees, except teaching staff:

Plan description:

The Town's full-time employees, except for School Department teaching staff, participate in the Plymouth County Retirement System ("System" or "PCRS"), a cost-sharing, multiple-employer public employee retirement system, administered by the Plymouth County Retirement Board. The PCRS plan provides retirement and disability benefits, annual cost-of-living adjustments, and health benefits to the plan members and beneficiaries as allowed by Chapter 32 of the Massachusetts General Laws, as amended. The Plymouth County Retirement system issues a publicly available financial report that may be obtained by writing the Plymouth County Retirement Board.

Funding policy:

Covered employees are required by state statute to contribute 5% to 9% of their salaries, depending upon the employee's date of employment, and for those employees hired after December 31, 1978, an additional 2% of their salary in excess of $30,000, to the plan. For fiscal year 2007, the Town's annual contribution was determined by the State Division of Public Employee Retirement Administration (PERA) in accordance with Chapter 32, Section 22, paragraph (b ½) of subdivision (1). The Town's contributions to the PCRS for the years ended June 30, 2007, 2006, and 2005 were $1,340,819, $1,201,280, and $1,053,157, respectively. For each year, the amount contributed represented 100% of the required amount.

Teaching staff:

Plan description:

The teaching staff of the Town is covered by the Massachusetts Teachers' Retirement System (MTRS). The Town is not legally required to contribute to MTRS. MTRS is fully funded by the Commonwealth of Massachusetts and by contributions from covered employees. The amount of the current funding by the Commonwealth was $4,202,857. All full-time teaching staff is covered by and must participate in MTRS. Benefits fully vest after 10 years of full-time employment. An employee may receive retirement benefits after 20 years of service, or after 10 years of service and having attained the age of 55.

6. Retirement plans - continued:

Funding policy:

Covered employees are required by state statute to contribute 5% to11% of their salaries, depending upon the employee's date of employment, and for those employees hired after December 31, 1978, an additional 2% of their salary in excess of $30,000, to the plan. The Commonwealth is required to make actuarially determined contributions that maintain the financial integrity of the retirement system.

7. 2008 Budget:

The Town has authorized a fiscal 2008 operating and capital budget totaling $42,804,450, which will be financed from the following sources:

| | |
|---|---|
| Fiscal 2008 tax levies, state grants, departmental receipts, etc. | $ 40,722,581 |
| Available surplus | 1,392,097 |
| Other available funds | 689,772 |
| | $ 42,804,450 |

In addition, the Town has encumbered funds and carried forward appropriations totaling $1,342,724 from fiscal year 2007 and prior years for projects authorized by the Town meeting but not completed.

8. Commitments and contingencies:

The Town receives financial assistance from various federal, state, and local government agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund types. However, in the opinion of management, any such disallowed costs will not have a material effect on the general-purpose financial statements of the Town at June 30, 2007.

Pending or threatened lawsuits against municipal governments arise in the ordinary course of operations. In the opinion of the administration, the ultimate resolution of any of these legal actions at this date will not result in a material loss to the Town.

9. Postemployment benefits other than pension benefits:

In addition to the pension benefits described in Note 6, the Town provides postretirement health care and life insurance benefits, in accordance with state statutes, to all full-time employees who retire from the Town on or after attaining age 55 or with 20 years of credited service. Currently, 201 retirees are provided postretirement health insurance benefits and 175 retirees are provided postretirement life insurance benefits. The Town pays approximately 50% of medical and life insurance premiums for the retirees and their dependents. The Town recognizes the cost of providing these benefits by expensing premiums in the year paid ("pay-as-you-go" method). The cost incurred in fiscal 2007 (net of retiree contributions) was $605,183.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Town provides health care benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premiums are paid in full by the insured. The program is offered for a duration of 18 months after the termination date. There is no associated cost to the Town under this program, and there were 6 participants in the program at June 30, 2007.

10. Intergovernmental receivables:

Intergovernmental receivables principally include amounts due from the Massachusetts School Building Authority (MSBA) ($13,096,640) and the Commonwealth of Massachusetts for road construction ($1,183,852). Revenue related to the amount due from the MSBA has been deferred since it will be received in annual installments 935,474 through fiscal year 2021. Revenue related to the road construction project has likewise been deferred since it will not be received until the Town makes eligible expenditures.

11. Capital projects deficit fund balance:

Based on the application of accounting principles generally accepted in the United States, the Capital Projects Fund shows a deficit fund balance on current construction projects. The deficits arise because the necessary legal steps and the ability to consummate refinancing criteria set forth in FASB Statement No. 6, "Classification of Short-term Obligations to be Refinance" have not been met. The debt is considered a fund liability and not a source of financing to be reported in the Statement of Revenues, Expenditures and Changes in Fund Balances. The deficits will be eliminated when the requirements of FASB No. 6 are met.

12. The following table provides a summary of changes in capital assets (in thousands) - continued:

| | ASSETS | | | DEPRECIATION | | | Net |
|---|---|---|---|---|---|---|---|
| | Beginning Balance July 1, 2006 | Transfers, Deletions, Additions | Ending Balance June 30, 2007 | Beginning Balance July 1, 2006 | Transfers, Deletions, Additions | Ending Balance June 30, 2007 | Book Value June 30, 2007 |
| Culture & recreation | | | | | | | |
| Land | 65 | 744 | 809 | | | | 809 |
| Buildings | 7,729 | | 7,729 | (1,788) | (193) | (1,981) | 5,748 |
| Improvements | 44 | | 44 | (32) | (2) | (34) | 10 |
| | 7,838 | | 8,582 | (1,820) | (195) | (2,015) | 6,567 |
| Total governmental activities | $ 73,809 | $ 678 | $ 75,231 | $ (34,051) | $ (1,584) | $ (35,635) | $ 39,596 |
| Business-type activities: | | | | | | | |
| Water Department | | | | | | | |
| Land | $ 977 | $ | $ 977 | $ | $ | $ | $ 977 |
| Buildings | 6,415 | | 6,415 | (706) | (145) | (851) | 5,564 |
| Infrastructure | 11,030 | | 11,030 | (5,717) | (212) | (5,929) | 5,101 |
| | 18,422 | 0 | 18,422 | (6,423) | (357) | (6,780) | 11,642 |
| Ambulance fund | | | | | | | |
| Vehicles | 249 | | 249 | (145) | (30) | (175) | 74 |
| Total business-type activities: | $ 18,671 | $ 0 | $ 18,671 | $ (6,568) | $ (387) | $ (6,955) | $ 11,716 |

TOWN OF HANOVER, MASSACHUSETTS

SCHEDULE OF CASH

JUNE 30, 2007

DETAIL OF BALANCES

| | |
|---|---|
| Interest bearing: | |
| Century Bank | $ 2,328,965 |
| Rockland Trust Company | 96,333 |
| Massachusetts Municipal Depository Trust | 5,663,073 |
| TD Banknorth | 5,149,157 |
| Citizens Bank | 3,660,054 |
| Unibank | 56,754 |
| Mellon Bank | 132,854 |
| Merrill Lynch | 120,521 |
| Sovereign Bank | 353,925 |
| Weymouth Bank | 506,237 |
| Eastern Bank | 2,382,211 |
| Non-interest bearing: | |
| Petty cash | 13,900 |
| Total | $ 20,463,984 |

See independent auditor's report on additional information, page 1.

TOWN OF HANOVER, MASSACHUSETTS
SCHEDULE OF TAXES
YEAR ENDED JUNE 30, 2007

| | | UNCOLLECTED TAXES June 30, 2006 | Commitments | Abatements and Adjustments | Transfer to Tax Title | Collections, Net of Refunds | UNCOLLECTED TAXES June 30, 2007 | Per Tax Collector's Detail Listing |
|---|---|---|---|---|---|---|---|---|
| REAL ESTATE | 2005 | $ 3,703 | $ 43,253 | $ (2,666) | $ | $ 2,518 | $ 3,555 | $ 3,555 |
| | 2006 | 200,810 | 26,446,696 | (47,634) | | (189,164) | 7,265 | 7,265 |
| | 2007 | | | (161,043) | | (25,962,498) | 323,155 | 153,201 |
| | | 204,513 | 26,489,949 | (211,343) | 0 | (26,149,144) | 333,975 | 164,021 |
| PERSONAL PROPERTY | 2005 | 216 | 62 | | | (278) | 0 | 0 |
| | 2006 | 6,390 | | | | (2,552) | 3,838 | 3,838 |
| | 2007 | | 441,914 | (3,867) | | (433,233) | 4,814 | 4,814 |
| | | 6,606 | 441,976 | (3,867) | 0 | (436,063) | 8,652 | 8,652 |
| TOTAL TAXES RECEIVABLE | | $ 211,119 | $ 26,931,925 | $ (215,210) | $ 0 | $ (26,585,207) | $ 342,627 | $ 172,673 |
| MOTOR VEHICLE EXCISE | 2004 AND PRIOR | $ 20,739 | $ 1,371 | $ (4,448) | $ | $ (2,061) | $ 15,601 | $ 15,601 |
| | 2005 | 32,546 | 2,432 | (2,975) | | (15,317) | 16,686 | 16,686 |
| | 2006 | 177,731 | 225,193 | (37,618) | | (338,206) | 27,100 | 27,100 |
| | 2007 | | 1,773,539 | (20,027) | | (1,583,031) | 170,481 | 170,481 |
| | | 231,016 | 2,002,535 | (65,068) | | (1,938,615) | 229,868 | 229,868 |
| TOTAL | | | | | | | | |
| VESSEL EXCISE | 2004 AND PRIOR | | 105 | | | (105) | 0 | 0 |
| | 2005 | | 20 | | | (20) | 0 | 0 |
| | 2006 | | 2,016 | (389) | | (1,544) | 83 | 83 |
| | 2007 | | 2,141 | (5) | | | 2,136 | 2,136 |
| | | 0 | 4,282 | (394) | | (1,669) | 2,219 | 2,219 |
| TOTAL MOTOR VEHICLE AND OTHER EXCISES | | $ 231,016 | $ 2,006,817 | $ (65,462) | $ | $ (1,940,284) | $ 232,087 | $ 232,087 |

See independent auditor's report on additional information, page 1

TOWN OF HANOVER, MASSACHUSETTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2007

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal Catalogue Number | Pass-Through Grantor's Number | Disbursements/ Expenditures |
|---|---|---|---|
| DEPARTMENT OF EDUCATION | | | |
| Passed through Commonwealth of Massachusetts Department of Education | | | |
| 94-142, SPED Allocation | 84.027 | 240-089-4-0122-H | $ 512,909 |
| 94-142, SPED Allocation | 84.027 | 240-089-4-0122-G | 3,055 |
| Early Childhood | 84.173 | 262-024-5-0122-H | 32,839 |
| Title IID | 84.318 | 160-124-5-0122-G | 657 |
| Safe & Drug Free Schools | 84.186 | 331-068-5-0122-H | 1,473 |
| Title IID | 84.318 | 160-124-5-0122-H | 796 |
| Title V | 84.151 | 302-122-5-0122-H | 1,681 |
| SPED program improvement | 84.027 | 274-107-4-0122-H | 24,305 |
| Title II | 84.367 | 140-145-5-0122-H | 39,175 |
| Title II | 84.367 | 140-143-5-0122-G | 1,799 |
| SPED assistance | 84.027 | 256-050-7-0122-H | 4,500 |
| Early Childhood | 84.173 | 262-024-5-0122-G | 620 |
| SPED Program improvement | 84.027 | 274-107-4-0122-G | 580 |
| Title I | 84.010 | 305-256-5-0122-G | 45 |
| Drug free schools | 84.186 | 331-068-5-0122-G | 5,844 |
| Total Department of Education | | | 630,278 |
| DEPARTMENT OF HOMELAND SECURITY | | | |
| Passed through Commonwealth of Massachusetts Department of Public Safety | | | |
| Federal vest | 16.607 | | 10,575 |
| Assistance to firefighters grant | 97.044 | | 155,469 |
| Police homeland security | 97.007 | SCEPSSHS26112108 | 12,387 |
| Police seatbelt enforcement | 16.592 | | 7,743 |
| Total Department of Homeland Security | | | 186,174 |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Emergency preparedness | 93.283 | | 3,693 |
| DEPARTMENT OF AGRICULTURE | | | |
| Passed through Commonwealth of Massachusetts Department of Education | | | |
| Aid-in-Kind Food Subsidy | 10.550 | | 29,813 |
| National School Lunch Program | 10.555 | 24-030-4580-006 | 88,554 |
| Total Department of Agriculture | | | 118,367 |
| Total Federal Award | | | $ 938,512 |

TOWN OF HANOVER, MASSACHUSETTS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2007

(1) Summary of Significant Accounting Policies

Accounting policies and financial reporting practices permitted for municipalities in Massachusetts are prescribed by the Uniform Municipal Accounting System (UMAS) promulgated by the Commonwealth of Massachusetts Department of Revenue. The significant accounting policies followed by the Town are as follows:

(a) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant transactions of the Town.

The receipts and proceeds from federal grants are recorded on the modified accrual basis whereby revenue is recognized when it becomes available and measurable. Disbursements of federal grant funds are recorded on the accrual basis.

(2) Aid-in-kind

During fiscal 2007, the Town received aid-in-kind in the form of beef, pork, cheese and other miscellaneous food items, from the United States Department of Agriculture, through the Commonwealth of Massachusetts' Bureau of Nutrition. The value of these items received, as determined by the USDA, was $29,813. The items received were used by the Town in the school lunch program.

(3) Findings of noncompliance

There were no findings of noncompliance identified in connection with either the 2007 or 2006 single audits.

TOWN OF HANOVER, MASSACHUSETTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general-purpose financial statements of the Town of Hanover, Massachusetts.

2. No reportable conditions relating to the audit of the general-purpose financial statements are reported in the report on compliance and on internal control over financial reporting.

3. No instances of noncompliance material to the general-purpose financial statements of the Town of Hanover, Massachusetts were disclosed during the audit.

4. No reportable conditions relating to the audit of the major federal award programs is reported in the report on compliance and on internal control over compliance applicable to each major federal program.

5. The auditor's report on compliance for the major federal award programs of the Town of Hanover, Massachusetts expresses an unqualified opinion.

6. Audit findings relative to the major federal award programs for the Town of Hanover, Massachusetts are reported in Part C. of this Schedule.

7. The programs tested as major programs include:

   SPED Program cluster (CFDA #84.027 & #84.173)

8. The threshold for distinguishing Type A and B programs was $300,000.

9. The Town of Hanover, Massachusetts was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None