

TOWN OF HANOVER, MASSACHUSETTS

FINANCIAL STATEMENTS

AND ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2006

FINANCIAL REPORT PURSUANT TO OMB CIRCULAR A-133  
YEAR ENDED JUNE 30, 2006

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, major funds, and remaining fund information, which collectively comprise the basic financial statements of the Town of Hanover, Massachusetts as of and for the year ended June 30, 2006 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 basic 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, business-type activities, major funds, and the remaining information of the Town of Hanover, Massachusetts at June 30, 2006, and the changes in financial position and cash flows, where applicable, 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.

The management's discussion and analysis on pages 4 through 7 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.

In accordance with Government Auditing Standards, I have issued my report dated January 19, 2007, on my consideration of the Town of Hanover, Massachusetts' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

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*

January 19, 2007



TIMOTHY M. CRAVEN

*Certified Public Accountant*

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
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, major funds, and remaining fund information of the Town of Hanover, Massachusetts as of and for the year ended June 30, 2006, which collectively comprise the Town of Hanover, Massachusetts' basic financial statements and have issued my report thereon, dated January 19, 2007. 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.

Compliance

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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Town of Hanover, Massachusetts' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, I noted other matters involving the internal control over financial reporting that I have reported to management of the Town of Hanover, Massachusetts, in a separate letter dated January 19, 2007.

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*

January 19, 2007



TIMOTHY M. CRAVEN

*Certified Public Accountant*

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
COMPLIANCE APPLICABLE TO EACH MAJOR PROGRAM 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, 2006. 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 generally accepted auditing standards; 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, 2006.

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 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 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 CPA*

January 19, 2007

As Management of the Town of Hanover we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the Town's basic financial statements which follow.

## Overview of the Financial Statements

Effective July 1, 2002, the Town implemented the new reporting requirements outlined in the Government Accounting Standards Board Statement 34 and prepares two types of statements. The government-wide financial statements provide both long-term and short-term information about the Town as a whole. The fund financial statements focus on the individual parts of the Town government, reporting the Town's operations in more detail than the government-wide statements. Both presentations (government-wide and fund basis) allow the user to address relevant questions, broaden the basis of comparison and enhance the Town's accountability. The remaining statements provide financial information about the activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government. An additional part of the basic financial statements are the notes to the financial statements.

## Government-Wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Town's financial position, which assists one in assessing the Town's economic position at the end of the fiscal year. The statements are prepared using the flow of economic resources measurement focus and the full accrual basis of accounting. All revenues and expenses connected with the fiscal year are considered even if cash involved has not been received or disbursed. The government-wide financial statements include two statements:

**Statement of Net Assets** – The statement of net assets presents all of the government's assets and liabilities, with the difference being reported as "net assets." The amount of net assets is widely considered a good measure of the Town's financial health as increases and decreases in the Town's net assets serves as a useful indicator of whether the financial position is improving or deteriorating. The reader should consider other nonfinancial factors, such as the condition of the Town's infrastructure and changes to the property tax base to assess the overall fiscal health of the Town.

The following table compares the information presented in statement of net assets found on page 5 of the basic financial statements with the previous fiscal year's information.

The Town's combined net assets exceeded its combined net liabilities (government and business-type activities) at fiscal year ended June 30, 2006 by \$34,456,891. Of the combined net assets, \$8,935,905 was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the Town's ongoing obligations to citizens and creditors.

|  | June 30, 2006              |                             |               | June 30, 2005              |                             |               |
|--|----------------------------|-----------------------------|---------------|----------------------------|-----------------------------|---------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total         | Governmental<br>Activities | Business-type<br>Activities | Total         |
| Current Assets                                     | \$ 25,581,077              | \$ 4,306,738                | \$ 29,887,815 | \$ 10,323,053              | \$ 4,256,552                | \$ 14,579,605 |
| Capital Assets                                     | 39,757,819                 | 12,101,861                  | 51,859,680    | 41,121,416                 | 12,428,817                  | 53,550,233    |
| Total Assets                                       | 65,338,896                 | 16,408,599                  | 81,747,495    | 51,444,469                 | 16,685,369                  | 68,129,838    |
| Current Liabilities                                | 18,053,021                 | 1,329,328                   | 19,382,349    | 4,643,000                  | 1,846,968                   | 6,489,968     |
| Long-term Liabilities                              | 22,445,381                 | 6,262,874                   | 28,708,255    | 22,609,280                 | 6,256,715                   | 28,865,995    |
| Total Liabilities                                  | 40,498,402                 | 7,592,202                   | 48,090,604    | 27,252,280                 | 8,103,683                   | 35,355,963    |
| Net Assets   |                            |                             |               |                            |                             |               |
| Invested in capital assets,<br>net of related debt | 20,711,503                 | 5,976,082                   | 26,687,585    | 20,480,228                 | 5,793,945                   | 26,274,173    |
| Restricted   | (1,166,599)                |                             | (1,166,599)   | (690,645)                  | -                           | (690,645)     |
| Unrestricted                                       | 6,095,590                  | 2,840,315                   | 8,935,905     | 4,428,289                  | 2,787,741                   | 7,216,030     |
| Total Net Assets                                   | \$ 25,640,494              | \$ 8,816,397                | \$ 34,456,891 | \$ 24,217,872              | \$ 8,581,686                | \$ 32,799,558 |

**Statement of Activities** – 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 occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will not result in cash flows until future fiscal periods, i.e., uncollected taxes or earned but unused sick and vacation time. This statement also presents a comparison between direct expenses and program revenues for each function of the Town.

In the government-wide statements, financial information is presented in three columns in order to summarize the Town's programs or activities. The types of activities presented are as follows:

**Governmental Activities** - Taxes and intergovernmental revenues, (i.e., federal and state aid and grants), primarily support the activities of the government and are reported in this section. Most of the Town's basic services are reported here, including the broad functions of general administration; financial administration; community development; protection of persons and property; education; public works; human services; culture and recreation; debt service interest; employee benefits; and intergovernmental charges.

**Business-Type Activities** – These activities are Town functions intended to recover all or a significant portion of their costs through fees and charges to external users of goods and services. The water department, ambulance, and food services funds are considered business-type activities.

The Town's total net assets increased by \$1,683,198 in fiscal year 2006, of which the governmental activities net assets increased \$1,448,488 and the business-type activities increased \$234,710.

|                                  | June 30, 2006              |                             |                      | June 30, 2005              |                             |                      |
|----------------------------------|----------------------------|-----------------------------|----------------------|----------------------------|-----------------------------|----------------------|
|                                  | Governmental<br>Activities | Business-type<br>Activities | Total                | Governmental<br>Activities | Business-type<br>Activities | Total                |
| <b>Revenues</b>                  |                            |                             |                      |                            |                             |                      |
| Program Revenues                 |                            |                             |                      |                            |                             |                      |
| Charges for service              | \$ 2,227,566               | \$ 4,198,289                | \$ 6,425,855         | \$ 2,050,075               | \$ 3,849,055                | \$ 5,899,130         |
| Operating grants                 | 11,705,841                 | 92,815                      | 11,798,656           | 10,931,009                 | 90,345                      | 11,021,354           |
| Capital grants                   | 66,835                     |                             | 66,835               | -                          | -                           | -                    |
| General Revenues                 |                            |                             |                      |                            |                             |                      |
| Property tax                     | 26,429,912                 |                             | 26,429,912           | 24,084,240                 |                             | 24,084,240           |
| Other taxes                      | 2,223,214                  |                             | 2,223,214            | 2,128,817                  |                             | 2,128,817            |
| Grants - not restricted          | 2,432,589                  |                             | 2,432,589            | 2,412,165                  |                             | 2,412,165            |
| All other                        | 926,227                    | 123,613                     | 1,049,840            | 639,360                    | 52,692                      | 692,052              |
| <b>Total Revenues</b>            | <b>46,012,184</b>          | <b>4,414,717</b>            | <b>50,426,901</b>    | <b>42,245,666</b>          | <b>3,992,092</b>            | <b>46,237,758</b>    |
| <b>Expenses</b>                  |                            |                             |                      |                            |                             |                      |
| General Administration           | 547,606                    |                             | 547,606              | 568,225                    |                             | 568,225              |
| Financial Administration         | 822,362                    |                             | 822,362              | 861,011                    |                             | 861,011              |
| Community Development            | 263,351                    |                             | 263,351              | 268,628                    |                             | 268,628              |
| Public Safety                    | 6,544,012                  |                             | 6,544,012            | 6,065,304                  |                             | 6,065,304            |
| Education                        | 30,400,526                 |                             | 30,400,526           | 29,107,868                 |                             | 29,107,868           |
| Public Works                     | 3,930,312                  |                             | 3,930,312            | 3,699,638                  |                             | 3,699,638            |
| Human Services                   | 536,432                    |                             | 536,432              | 523,999                    |                             | 523,999              |
| Culture & Recreation             | 880,147                    |                             | 880,147              | 860,273                    |                             | 860,273              |
| Debt Service Interest            | 984,849                    |                             | 984,849              | 1,030,526                  |                             | 1,030,526            |
| Intergovernmental                | 424,802                    |                             | 424,802              | 376,561                    |                             | 376,561              |
| Water                            |                            | 2,661,649                   | 2,661,649            |                            | 2,442,921                   | 2,442,921            |
| Ambulance                        |                            | 45,404                      | 45,404               |                            | 38,444                      | 38,444               |
| Food Service                     |                            | 702,251                     | 702,251              |                            | 661,074                     | 661,074              |
| <b>Total Expenses</b>            | <b>45,334,399</b>          | <b>3,409,304</b>            | <b>48,743,703</b>    | <b>43,362,033</b>          | <b>3,142,439</b>            | <b>46,504,472</b>    |
| <b>Increase before transfers</b> | <b>677,785</b>             | <b>1,005,413</b>            | <b>1,683,198</b>     | <b>(1,116,367)</b>         | <b>849,653</b>              | <b>(266,714)</b>     |
| <b>Transfers</b>                 | <b>770,703</b>             | <b>(770,703)</b>            | <b>-</b>             | <b>683,125</b>             | <b>(683,125)</b>            | <b>-</b>             |
| <b>Increase in net assets</b>    | <b>1,448,488</b>           | <b>234,710</b>              | <b>1,683,198</b>     | <b>(433,242)</b>           | <b>166,528</b>              | <b>(266,714)</b>     |
| <b>Net Assets - Jbeginning</b>   | <b>24,192,006</b>          | <b>8,581,687</b>            | <b>32,773,693</b>    | <b>24,625,248</b>          | <b>8,415,156</b>            | <b>33,040,404</b>    |
| <b>Net Assets - ending</b>       | <b>\$ 25,640,494</b>       | <b>\$ 8,816,397</b>         | <b>\$ 34,456,891</b> | <b>\$ 24,192,006</b>       | <b>\$ 8,581,687</b>         | <b>\$ 32,773,693</b> |

## Fund Financial Statements

The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town 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, government fund financial statements focus on the *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

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

The Town maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the two major funds. The remaining governmental funds are aggregated and presented under the caption *other funds*.

The basic governmental fund financial statements can be found on pages 10-15 of this report.

As of the end of the fiscal year ended June 30, 2006, the Town's governmental funds reported a combined ending fund balance of \$7,120,857. Of this amount, \$1,086,334 is reserved for encumbrances and continuing appropriations and \$1,294,011 is reserved for other purposes.

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 \$2,276,653 while the total fund balance was \$6,212,446. As a measure of the general fund's liquidity, it may be useful to compare both unreserved and total fund balances to total fund expenditures. The unreserved fund balance represents 4.9% of total general fund expenditures.

**Proprietary funds:** Proprietary funds are used to account for the financial activities related to functions for which the Town sells goods or charges customers a fee, and which operate like a commercial business. This concept is broader in scope than the *enterprise fund* concept contained in state law. The proprietary fund provides the same type of information as in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The Town maintains three proprietary funds, the water department, ambulance fund, and food service fund (school lunch program). The basic proprietary fund financial statements can be found on pages 16-18 of this report.

**Fiduciary funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not included in the government-wide financial statements because the resources of the funds are not available to support the Town's own functions and activities. The accounting used for fiduciary funds is much like that used for proprietary funds. All fiduciary funds are combined into a single, aggregate presentation in the fiduciary fund financial statements under the caption private purpose trust funds.

The fiduciary fund financial statements can be found on pages 19-20 of this report.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on the pages 21-30 of this report.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning taxes receivable and cash balances, as well as information required under the Single Audit Act.

## Economic Factors and Next Year's Budget

According to the U.S. Census Bureau, the median family income and the per capita income for the Town in 2000 were \$86,835 and \$30,268 respectively. This compares favorably with both state and national incomes.



The Town's Board of Assessors determined the average 2006 single family home in Hanover was valued at \$459,947, the average commercial property was valued at \$985,488, and the average industrial property was valued at \$608,187.

The May 2006 Annual Town Meeting has appropriated a fiscal year 2007 general fund operating budget of \$41,216,978. This represents a \$2,295,905 (6%) increase over the final fiscal year 2006 budget.

**Request for Information**

This financial report is designed to provide a general overview of the Town's finances for all of those with an interest in the Town's finances. Questions concerning any information provided in this report or requests for additional information should be addressed to Director of Municipal Finance, Town of Hanover, 550 Hanover Street, Suite 1, Hanover, Massachusetts 02339.

TOWN OF HANOVER, MASSACHUSETTS  
TOWN-WIDE STATEMENT OF NET ASSETS  
JUNE 30, 2006

|   | Governmental<br>Activities | Business-type<br>Activities | Total                |
|---|----------------------------|-----------------------------|----------------------|
| <b>ASSETS</b>                                   |                            |                             |                      |
| Cash and cash equivalents                       | \$ 9,990,216               | \$ 3,404,262                | \$ 13,394,478        |
| Due from other governments                      | 14,700,521                 | 5,170                       | 14,705,691           |
| Taxes receivable                                | 841,090                    |                             | 841,090              |
| Allowance for abatements                        | (250,285)                  |                             | (250,285)            |
| Excises receivable                              | 231,016                    |                             | 231,016              |
| Departmental receivables                        | 14,683                     |                             | 14,683               |
| Betterment receivables                          | 53,836                     |                             | 53,836               |
| Accounts receivable, net                        |                            | 897,306                     | 897,306              |
| Capital assets:                                 |                            |                             |                      |
| Land and construction in progress               | 6,185,522                  | 977,779                     | 7,163,301            |
| 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  | 5,039,055                  | 248,591                     | 5,287,646            |
| Less accumulated depreciation                   | (34,051,023)               | (6,568,020)                 | (40,619,043)         |
| Total capital assets, net of depreciation       | <u>39,757,819</u>          | <u>12,101,861</u>           | <u>51,859,680</u>    |
| Total assets                                    | <u>65,338,896</u>          | <u>16,408,599</u>           | <u>81,747,495</u>    |
| <b>LIABILITIES</b>                              |                            |                             |                      |
| Accounts payable and accrued expenses           | 1,928,419                  | 144,243                     | 2,072,662            |
| Bond and aid anticipation notes                 | 1,015,000                  | 1,185,000                   | 2,200,000            |
| Deposits  | 263,846                    | 85                          | 263,931              |
| Deferred revenues                               | 14,045,756                 |                             | 14,045,756           |
| Long-term liabilities:                          |                            |                             |                      |
| Portion due or payable within one year:         |                            |                             |                      |
| Bonds payable                                   | 1,380,872                  | 463,174                     | 1,844,046            |
| Accrued interest                                | 52,721                     | 12,144                      | 64,865               |
| Portion due or payable after one year:          |                            |                             |                      |
| Bonds payable                                   | 17,665,444                 | 5,662,605                   | 23,328,049           |
| Compensated absences                            | 3,346,344                  | 124,951                     | 3,471,295            |
| Total liabilities                               | <u>39,698,402</u>          | <u>7,592,202</u>            | <u>47,290,604</u>    |
| <b>NET ASSETS</b>                               |                            |                             |                      |
| Invested in capital assets, net of related debt | 20,711,503                 | 5,976,082                   | 26,687,585           |
| Restricted for:                                 |                            |                             |                      |
| Capital projects                                | (1,166,599)                |                             | (1,166,599)          |
| Unrestricted                                    | 6,095,590                  | 2,840,315                   | 8,935,905            |
| Total net assets                                | <u>\$ 25,640,494</u>       | <u>\$ 8,816,397</u>         | <u>\$ 34,456,891</u> |

See accompanying notes to the basic financial statements.

TOWN OF HANOVER, MASSACHUSETTS  
TOWN-WIDE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

| Functions/Programs                 | Expenses               | Indirect Expenses Allocation | Charges for services | Program revenues                   |                                  | Net (Expense) Revenue and Changes in Net Assets |                          |                        |
|------------------------------------|------------------------|------------------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|------------------------|
|                                    |                        |                              |                      | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities                         | Business-type Activities | Total                  |
| Governmental activities:           |                        |                              |                      |                                    |                                  |   |                          |                        |
| General Administration             | (409,742)              | (137,864)                    | 238,354              |                                    |                                  | (309,252)                                       |                          | (309,252)              |
| Financial Administration           | (647,650)              | (174,712)                    | 96,476               |                                    |                                  | (725,886)                                       |                          | (725,886)              |
| Community Development              | (195,784)              | (67,567)                     | 76,619               | 3,046                              |                                  | (183,686)                                       |                          | (183,686)              |
| Protection of persons and property | (5,452,866)            | (1,091,146)                  | 531,456              | 256,554                            |                                  | (5,756,002)                                     |                          | (5,756,002)            |
| Education                          | (28,061,818)           | (2,338,708)                  | 809,496              | 11,255,045                         |                                  | (18,335,985)                                    |                          | (18,335,985)           |
| Public works                       | (3,335,000)            | (595,312)                    | 222,804              | 91,273                             | 66,835                           | (3,549,400)                                     |                          | (3,549,400)            |
| Human services                     | (419,712)              | (116,720)                    | 124,194              | 62,578                             |                                  | (349,660)                                       |                          | (349,660)              |
| Culture & recreation               | (814,126)              | (66,021)                     | 128,167              | 37,345                             |                                  | (714,635)                                       |                          | (714,635)              |
| Debt service interest              | (984,849)              |                              |                      |                                    |                                  | (984,849)                                       |                          | (984,849)              |
| Intergovernmental                  | (424,802)              |                              |                      |                                    |                                  | (424,802)                                       |                          | (424,802)              |
| Total governmental activities      | <u>(40,746,349)</u>    | <u>(4,588,050)</u>           | <u>2,227,566</u>     | <u>11,705,841</u>                  | <u>66,835</u>                    | <u>(31,334,157)</u>                             |                          | <u>(31,334,157)</u>    |
| Business-type activities:          |                        |                              |                      |                                    |                                  |   |                          |                        |
| Water department                   | (2,661,649)            |                              | 3,013,601            |                                    |                                  |   | 351,952                  | 351,952                |
| Ambulance fund                     | (45,404)               |                              | 574,004              |                                    |                                  |   | 528,600                  | 528,600                |
| Food services                      | (702,251)              |                              | 610,684              | 92,815                             |                                  |   | 1,248                    | 1,248                  |
| Total business-type activities     | <u>(3,409,304)</u>     |                              | <u>4,198,289</u>     | <u>92,815</u>                      |                                  |   | <u>881,800</u>           | <u>881,800</u>         |
| Total government                   | <u>\$ (44,155,653)</u> | <u>\$ (4,588,050)</u>        | <u>\$ 6,425,855</u>  | <u>\$ 11,798,656</u>               | <u>\$ 66,835</u>                 | <u>(31,334,157)</u>                             | <u>\$ 881,800</u>        | <u>\$ (30,452,357)</u> |
| General revenues:                  |                        |                              |                      |                                    |                                  |   |                          |                        |
| Property taxes                     |                        |                              |                      |                                    |                                  | 26,429,912                                      |                          | 26,429,912             |
| Excise taxes                       |                        |                              |                      |                                    |                                  | 2,223,214                                       |                          | 2,223,214              |
| Intergovernmental                  |                        |                              |                      |                                    |                                  | 2,432,589                                       |                          | 2,432,589              |
| Penalties & interest               |                        |                              |                      |                                    |                                  | 69,406  |                          | 69,406                 |
| Unrestricted investment earnings   |                        |                              |                      |                                    |                                  | 403,690   | 123,613                  | 527,303                |
| Deferred Revenue                   |                        |                              |                      |                                    |                                  | 214,081   |                          | 214,081                |
| Miscellaneous                      |                        |                              |                      |                                    |                                  | 239,050   |                          | 239,050                |
| Transfers                          |                        |                              |                      |                                    |                                  | 770,703   | (770,703)                | 0                      |
| Total general revenues             |                        |                              |                      |                                    |                                  | <u>32,782,645</u>                               | <u>(647,090)</u>         | <u>32,135,555</u>      |
| Change in net assets               |                        |                              |                      |                                    |                                  | <u>1,448,488</u>                                | <u>234,710</u>           | <u>1,683,198</u>       |
| Net assets - beginning             |                        |                              |                      |                                    |                                  | <u>24,192,006</u>                               | <u>8,581,687</u>         | <u>32,773,693</u>      |
| Net assets - ending                |                        |                              |                      |                                    |                                  | <u>\$ 25,640,494</u>                            | <u>\$ 8,816,397</u>      | <u>\$ 34,456,891</u>   |

See accompanying notes to the basic financial statements.

TOWN OF HANOVER, MASSACHUSETTS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

|   | General<br>Fund     | Capital<br>Projects<br>Fund | Other<br>Funds      | Governmental<br>Funds |
|---|---------------------|-----------------------------|---------------------|-----------------------|
| <b>ASSETS</b>                                 |                     |                             |                     |                       |
| Cash and cash equivalents                     | \$ 7,970,083        | \$                          | \$ 2,370,033        | \$ 10,340,116         |
| Due from other funds                          | 349,900             |                             |                     | 349,900               |
| Taxes receivable                              | 837,109             |                             | 3,981               | 841,090               |
| Allowance for abatements                      | (250,285)           |                             |                     | (250,285)             |
| Excise receivable                             | 231,016             |                             |                     | 231,016               |
| Due from other governments                    | 25,543              |                             | 668,300             | 693,843               |
| Betterment receivables                        |                     |                             | 53,836              | 53,836                |
| Departmental receivables                      |                     |                             | 14,683              | 14,683                |
| <b>Total assets</b>                           | <u>\$ 9,163,366</u> | <u>\$ 0</u>                 | <u>\$ 3,110,833</u> | <u>\$ 12,274,199</u>  |
| <b>LIABILITIES AND FUND BALANCES</b>          |                     |                             |                     |                       |
| <b>Liabilities:</b>                           |                     |                             |                     |                       |
| Accounts payable                              | \$ 1,821,735        | \$ 1,699                    | \$ 104,985          | \$ 1,928,419          |
| Due to other funds                            |                     | 349,900                     |                     | 349,900               |
| Deposits                                      |                     |                             | 263,846             | 263,846               |
| Deferred revenues                             | 779,285             |                             | 517,986             | 1,297,271             |
| Bond and aid anticipation notes               |                     | 815,000                     | 200,000             | 1,015,000             |
| <b>Total liabilities</b>                      | <u>2,601,020</u>    | <u>1,166,599</u>            | <u>1,086,817</u>    | <u>4,854,436</u>      |
| <b>Fund balances:</b>                         |                     |                             |                     |                       |
| Reserved for encumbrances                     | 1,086,334           |                             |                     | 1,086,334             |
| Reserved for rate stabilization               | 1,293,161           |                             |                     | 1,293,161             |
| Reserved for petty cash                       | 850                 |                             |                     | 13,900                |
| Unreserved, reported in:                      |                     |                             | 13,050              |                       |
| General fund                                  | 2,276,653           |                             |                     | 2,276,653             |
| Designated for subsequent year appropriations | 1,555,448           |                             |                     | 1,555,448             |
| Special revenue funds                         |                     |                             | 1,833,394           | 1,833,394             |
| Designated for subsequent year appropriations |                     |                             | 228,566             | 228,566               |
| Capital projects funds                        |                     | (1,166,599)                 |                     | (1,166,599)           |
| Total fund balances                           | <u>6,212,446</u>    | <u>(1,166,599)</u>          | <u>2,075,010</u>    | <u>7,120,857</u>      |
| <b>Total liabilities and fund balances</b>    | <u>\$ 8,813,466</u> | <u>\$ 0</u>                 | <u>\$ 3,161,827</u> | <u>\$ 11,975,293</u>  |

See accompanying notes to the basic financial statements.

TOWN OF HANOVER, MASSACHUSETTS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO STATEMENT OF NET ASSETS  
JUNE 30, 2006

|  |               |                      |
|--|---------------|----------------------|
| <b>Total fund balance - governmental funds</b>   |               | <b>\$ 7,120,857</b>  |
| 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.      |               | 1,207,197            |
| 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 \$34,051,023 |               | 39,757,818           |
| 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  | \$ 19,046,316 |                      |
| Accrued interest on bonds  | 52,721        |                      |
| Compensated absences (sick pay and vacations)  | 3,346,344     | (22,445,378)         |
| <b>Total net assets - governmental activities</b>  |               | <b>\$ 25,640,494</b> |

See accompanying notes to the basic financial statements.

TOWN OF HANOVER, MASSACHUSETTS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

|  | General<br>Fund     | Capital<br>Projects<br>Fund | Other<br>Funds      | Total<br>Governmental<br>Funds |
|--|---------------------|-----------------------------|---------------------|--------------------------------|
| <b>REVENUES</b>  |                     |                             |                     |                                |
| Property taxes   | \$ 25,640,829       | \$                          | \$                  | \$ 25,640,829                  |
| Excise taxes   | 2,223,237           |                             |                     | 2,223,237                      |
| Departmental   | 510,856             |                             | 2,313,072           | 2,823,928                      |
| Intergovernmental  | 12,279,057          |                             | 1,245,016           | 13,524,073                     |
| Fees   | 517,059             |                             |                     | 517,059                        |
| Fines  | 148,130             |                             |                     | 148,130                        |
| Penalties & interest                                     | 69,406              |                             |                     | 69,406                         |
| Reimbursement of allocated costs                         | 770,703             |                             |                     | 770,703                        |
| Unrestricted investment earnings                         | 387,694             |                             | 30,889              | 418,583                        |
| Miscellaneous  | 197,167             |                             | 40,933              | 238,100                        |
| Total revenues   | <u>42,744,138</u>   | <u></u>                     | <u>3,629,910</u>    | <u>46,374,048</u>              |
| <b>EXPENDITURES</b>                                      |                     |                             |                     |                                |
| Current:   |                     |                             |                     |                                |
| General administration                                   | 575,834             |                             |                     | 575,834                        |
| Financial Administration                                 | 644,670             |                             | 2,980               | 647,650                        |
| Community development                                    | 193,536             |                             | 2,249               | 195,785                        |
| Protection of persons and property                       | 5,019,792           | 19,643                      | 188,438             | 5,227,873                      |
| Education  | 21,198,270          | 81,565                      | 2,437,517           | 23,717,352                     |
| Public works   | 2,665,590           | 78,368                      | 94,048              | 2,838,006                      |
| Human services   | 398,293             |                             | 20,783              | 419,076                        |
| Culture & recreation                                     | 523,807             |                             | 95,284              | 619,091                        |
| Insurance  | 278,317             |                             | 18,657              | 296,974                        |
| Intergovernmental  | 424,802             |                             |                     | 424,802                        |
| Employee benefits  | 7,921,672           |                             |                     | 7,921,672                      |
| Debt service:  |                     |                             |                     |                                |
| Principal  | 1,594,872           |                             |                     | 1,594,872                      |
| Interest   | 990,565             |                             |                     | 990,565                        |
| Capital outlay   |                     | 223,830                     |                     | 223,830                        |
| Total expenditures                                       | <u>42,430,020</u>   | <u>403,406</u>              | <u>2,859,956</u>    | <u>45,693,382</u>              |
| Excess (deficiency of revenues over (under) expenditures | 314,118             | (403,406)                   | 769,954             | 680,666                        |
| <b>OTHER FINANCING SOURCES (USES)</b>                    |                     |                             |                     |                                |
| Transfers from other funds                               | 223,736             |                             |                     | 223,736                        |
| Transfers to other funds                                 |                     | (72,547)                    | (135,144)           | (207,691)                      |
| Net other financing sources (uses)                       | <u>223,736</u>      | <u>(72,547)</u>             | <u>(135,144)</u>    | <u>16,045</u>                  |
| Net change in fund balance                               | 537,854             | (475,953)                   | 634,810             | 696,711                        |
| Fund balances - July 1, 2005                             | <u>5,674,593</u>    | <u>(690,645)</u>            | <u>1,440,200</u>    | <u>6,424,148</u>               |
| Fund balances - June 30, 2006                            | <u>\$ 6,212,447</u> | <u>\$ (1,166,598)</u>       | <u>\$ 2,075,010</u> | <u>\$ 7,120,859</u>            |

See accompanying notes to the basic 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, 2006

|   |                            |
|---|----------------------------|
| <b>Total net change in fund balances - governmental funds</b>   | <b>\$ 696,711</b>          |
| 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 \$317,045  | 317,045                    |
| 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 (\$1,594,872) exceed capitalized items (\$223,830) in the period.   | (1,371,042)                |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.  | 1,594,872                  |
| 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 \$216,619.  | 216,619                    |
| 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 expense is recognized as the interest accrues, regardless of when it is due. | <u>(5,717)</u>             |
| <b>Changes in net assets of governmental activities</b>   | <b><u>\$ 1,448,488</u></b> |

See accompanying notes to the basic 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, 2006

|  | Budgeted amounts   |                    | Actual            | Variance with                      |
|--|--------------------|--------------------|-------------------|------------------------------------|
|  | Original           | Final              | (Budgetary Basis) | Final Budget Positive - (Negative) |
| <b>REVENUES</b>  |                    |                    |                   |                                    |
| Property Taxes   | \$ 25,511,727      | \$ 25,511,727      | \$ 25,511,727     | \$ 0                               |
| Motor vehicle & boat excises   | 1,901,500          | 1,901,500          | 2,223,237         | 321,737                            |
| Penalties & interest   | 45,000             | 45,000             | 69,406            | 24,406                             |
| Fees   | 433,500            | 433,500            | 517,058           | 83,558                             |
| Licenses & permits   | 520,000            | 520,000            | 510,856           | (9,144)                            |
| Fines  | 115,000            | 115,000            | 148,130           | 33,130                             |
| Investment income  | 210,000            | 210,000            | 339,561           | 129,561                            |
| Intergovernmental  | 8,339,436          | 8,339,436          | 8,507,616         | 168,180                            |
| Miscellaneous  | 175,000            | 175,000            | 197,167           | 22,167                             |
| Total revenues   | <u>37,251,163</u>  | <u>37,251,163</u>  | <u>38,024,758</u> | <u>773,595</u>                     |
| <b>EXPENDITURES</b>  |                    |                    |                   |                                    |
| Current:   |                    |                    |                   |                                    |
| General administration   | 695,981            | 696,970            | 663,328           | 33,642                             |
| Financial administration   | 689,556            | 698,056            | 642,640           | 55,416                             |
| Community development  | 197,192            | 202,111            | 189,027           | 13,084                             |
| Protection of persons and property   | 5,052,974          | 5,070,005          | 5,027,048         | 42,957                             |
| Education  | 21,161,234         | 21,182,009         | 21,176,476        | 5,533                              |
| Public works   | 2,651,597          | 2,720,732          | 2,646,204         | 74,528                             |
| Human services   | 461,415            | 461,415            | 395,017           | 66,398                             |
| Culture & recreation   | 532,449            | 532,449            | 520,775           | 11,674                             |
| Intergovernmental  | 382,503            | 382,503            | 424,802           | (42,299)                           |
| Insurance and employee benefits  | 4,750,980          | 4,652,618          | 4,258,248         | 394,370                            |
| Debt service   | 2,652,695          | 2,652,695          | 2,592,212         | 60,483                             |
| Total expenditures   | <u>39,228,576</u>  | <u>39,251,563</u>  | <u>38,535,777</u> | <u>715,786</u>                     |
| Excess (deficiency) of revenues over expenditures  | <u>(1,977,413)</u> | <u>(2,000,400)</u> | <u>(511,019)</u>  | <u>1,489,381</u>                   |
| <b>OTHER FINANCING SOURCES (USES)</b>  |                    |                    |                   |                                    |
| Transfers in   | 1,165,986          | 1,186,761          | 1,186,761         | 0                                  |
| Transfers out  | (75,000)           | (75,000)           | (75,000)          | 0                                  |
| Other available funds  | <u>886,427</u>     | <u>888,639</u>     | <u>(600,742)</u>  | <u>(1,489,381)</u>                 |
| Total other financing sources (uses)   | <u>1,977,413</u>   | <u>2,000,400</u>   | <u>511,019</u>    | <u>(1,489,381)</u>                 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | <u>\$ 0</u>        | <u>\$ 0</u>        | <u>\$ 0</u>       | <u>\$ 0</u>                        |

See accompanying notes to basic 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, 2006

|  | REVENUES             | EXPENDITURES         | OTHER<br>FINANCING<br>SOURCES<br>(USES) |
|--|----------------------|----------------------|---|
| Governmental fund general fund - GAAP basis.   | \$ 42,744,138        | \$ 42,430,020        | \$ 223,736                              |
| Non-budgeted on-behalf payments made by the Commonwealth<br>of Massachusetts to the Massachusetts Teachers' Retirement<br>Board. | (3,771,441)          | (3,771,441)          |   |
| Use of available fund to balance the budget  |                      |                      | (600,742)                               |
| Use of overlay surplus to balance the budget   |                      |                      | 192,322                                 |
| Transfer from the Ambulance business-type activity fund.   | (460,000)            |                      | 460,000                                 |
| Transfer from the Water Department business-type activity fund.  | (310,703)            |                      | 310,703                                 |
| Transfer to Stabilization fund.  |                      |                      | (75,000)                                |
| Interest income on the Town's stabilization reserve fund which is<br>not budgeted in the general fund.                           | (48,133)             |                      |   |
| Net effect of GAAP accounting for encumbrances.  |                      | (122,802)            |   |
| Adjustment for revenue recognition on the modified accual basis.   | (129,103)            |                      |   |
|  | <u>\$ 38,024,758</u> | <u>\$ 38,535,777</u> | <u>\$ 511,019</u>                       |

See accompanying note to the basic financial statements.

TOWN OF HANOVER, MASSACHUSETTS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006

|   | Water<br>Department | Ambulance<br>Fund | Food Services    | Total               |
|---|---------------------|-------------------|------------------|---------------------|
| <b>ASSETS</b>                                   |                     |                   |                  |                     |
| Current assets:                                 |                     |                   |                  |                     |
| Cash and cash equivalents                       | \$ 2,633,494        | \$ 683,598        | \$ 87,170        | \$ 3,404,262        |
| Due from other governments                      |                     |                   | 5,170            | 5,170               |
| Accounts receivable, net                        | 750,157             | 147,149           |                  | 897,306             |
| Total current assets:                           | <u>3,383,651</u>    | <u>830,747</u>    | <u>92,339</u>    | <u>4,306,738</u>    |
| Capital assets:                                 |                     |                   |                  |                     |
| Land and construction in progress               | 977,779             |                   |                  | 977,779             |
| Buildings                                       | 6,414,692           |                   |                  | 6,414,692           |
| Infrastructure                                  | 11,028,819          |                   |                  | 11,028,819          |
| Vehicles  |                     | 248,591           |                  | 248,591             |
| Less: accumulated depreciation                  | (6,423,444)         | (144,576)         |                  | (6,568,020)         |
| Total capital assets, net of depreciation       | <u>11,997,846</u>   | <u>104,015</u>    |                  | <u>12,101,861</u>   |
| Total assets                                    | <u>15,381,497</u>   | <u>934,762</u>    | <u>92,339</u>    | <u>16,408,599</u>   |
| <b>LIABILITIES</b>                              |                     |                   |                  |                     |
| Current liabilities                             |                     |                   |                  |                     |
| Accounts payable                                | 135,823             | 5,014             | 3,407            | 144,243             |
| Current portion of long-term debt               | 463,174             |                   |                  | 463,174             |
| Interest payable                                | 12,144              |                   |                  | 12,144              |
| Anticipation notes payable                      | 1,025,000           | 160,000           |                  | 1,185,000           |
| Deposits  | 85                  |                   |                  | 85                  |
| Total current liabilities                       | <u>1,636,226</u>    | <u>165,014</u>    | <u>3,407</u>     | <u>1,804,646</u>    |
| Non-current liabilities:                        |                     |                   |                  |                     |
| Long-term portion of long-term debt             | 5,662,605           |                   |                  | 5,662,605           |
| Compensated absences                            | 84,798              |                   | 40,153           | 124,951             |
| Total non-current liabilities                   | <u>5,747,403</u>    |                   | <u>40,153</u>    | <u>5,787,556</u>    |
| Total liabilities                               | <u>7,383,629</u>    | <u>165,014</u>    | <u>43,560</u>    | <u>7,592,202</u>    |
| <b>NET ASSETS</b>                               |                     |                   |                  |                     |
| Invested in capital assets, net of related debt | 5,872,067           | 104,015           |                  | 5,976,082           |
| Unrestricted                                    | 2,125,801           | 665,734           | 48,780           | 2,840,315           |
| Total net assets                                | <u>\$ 7,997,868</u> | <u>\$ 769,749</u> | <u>\$ 48,780</u> | <u>\$ 8,816,397</u> |

See accompanying notes to the basic financial statements.

TOWN OF HANOVER, MASSACHUSETTS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

|   | Water<br>Department        | Ambulance<br>Fund        | Food services           | Total                      |
|---|----------------------------|--------------------------|-------------------------|----------------------------|
| <b>OPERATING REVENUES</b>               |                            |                          |                         |                            |
| Charges for services                    | \$ 3,013,601               | \$ 574,004               | \$                      | \$ 3,587,605               |
| Food service sales                      |                            |                          | 610,683                 | 610,683                    |
| Total operating revenues                | <u>3,013,601</u>           | <u>574,004</u>           | <u>610,683</u>          | <u>4,198,288</u>           |
| <b>OPERATING EXPENSES</b>               |                            |                          |                         |                            |
| Payroll                                 | 1,039,644                  |                          | 331,856                 | 1,371,500                  |
| Supplies and materials                  | 948,428                    | 15,686                   | 370,395                 | 1,334,509                  |
| Allocated costs                         | 310,703                    | 460,000                  |                         | 770,703                    |
| Depreciation                            | 366,311                    | 29,718                   |                         | 396,029                    |
| Total operating expenses                | <u>2,665,086</u>           | <u>505,404</u>           | <u>702,251</u>          | <u>3,872,741</u>           |
| Operating income (loss)                 | 348,515                    | 68,600                   | (91,568)                | 325,547                    |
| <b>NONOPERATING REVENUES (EXPENSES)</b> |                            |                          |                         |                            |
| Grants income                           |                            |                          | 92,815                  | 92,815                     |
| Investment income                       | 123,613                    |                          |                         | 123,613                    |
| Interest expense                        | (307,266)                  |                          |                         | (307,266)                  |
| Total nonoperating revenues (expenses)  | <u>(183,653)</u>           |                          | <u>92,815</u>           | <u>(90,838)</u>            |
| Change in net assets                    | 164,862                    | 68,600                   | 1,248                   | 234,710                    |
| Total net assets - July 1, 2005         | <u>7,833,006</u>           | <u>701,149</u>           | <u>47,532</u>           | <u>8,581,687</u>           |
| Total net assets - June 30, 2006        | <u><u>\$ 7,997,868</u></u> | <u><u>\$ 769,749</u></u> | <u><u>\$ 48,780</u></u> | <u><u>\$ 8,816,397</u></u> |

See accompanying notes to the basic financial statements.

TOWN OF HANOVER, MASSACHUSETTS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 20, 2006

|   | Water<br>Department | Ambulance<br>Fund | Food Services      | Total               |
|---|---------------------|-------------------|--------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |                   |                    |                     |
| Received from user charges  | \$ 3,012,320        | \$ 548,849        | \$ 610,683         | \$ 4,171,852        |
| Payments to employees for services  | (1,038,544)         |                   | (331,856)          | (1,370,400)         |
| Payments to suppliers for good and services   | (947,574)           | (11,599)          | (356,943)          | (1,316,116)         |
| Transfers to other funds for allocated costs  | (310,703)           | (460,000)         |                    | (770,703)           |
| Net cash provided (used) by operating activities  | <u>715,499</u>      | <u>77,250</u>     | <u>(78,116)</u>    | <u>714,633</u>      |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>  |                     |                   |                    |                     |
| Nonoperating grants received  |                     |                   | 66,177             | 66,177              |
| Net cash provided (used) by noncapital financing activities   |                     |                   | <u>66,177</u>      | <u>66,177</u>       |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                                       |                     |                   |                    |                     |
| Principal paid on bonds   | (509,014)           |                   |                    | (509,014)           |
| Interest paid on bonds  | (307,266)           |                   |                    | (307,266)           |
| Acquisition of fixed assets   | (69,072)            |                   |                    | (69,072)            |
| Net cash provided (used) by capital and related financing activities                                  | <u>(885,352)</u>    |                   |                    | <u>(885,352)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                     |                   |                    |                     |
| Investment income   | 123,613             |                   |                    | 123,613             |
| Net cash provided (used) by investing activities  | <u>123,613</u>      |                   |                    | <u>123,613</u>      |
| Net increase in cash and cash equivalents   | (46,240)            | 77,250            | (11,939)           | 19,071              |
| Cash and cash equivalents - July 1, 2005  | 2,679,734           | 606,348           | 99,109             | 3,385,191           |
| Cash and cash equivalents - June 30, 2006   | <u>\$ 2,633,494</u> | <u>\$ 683,598</u> | <u>\$ 87,170</u>   | <u>\$ 3,404,262</u> |
| <b>Reconciliation of operating (loss) to net cash used by operating activities:</b>                   |                     |                   |                    |                     |
| Operating income (loss)   | \$ 348,515          | \$ 68,600         | \$ (91,568)        | \$ 325,547          |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: |                     |                   |                    |                     |
| Commodities used  |                     |                   | 28,495             | 28,495              |
| Depreciation  | 366,311             | 29,718            |                    | 396,029             |
| Changes in assets and liabilities:  |                     |                   |                    |                     |
| Accounts payable  | 8,486               |                   |                    |                     |
| Receivables   | (7,815)             | (25,155)          |                    | (32,970)            |
| Compensated absences  | 1,336               |                   | (7,322)            | (5,986)             |
| Accrued liabilities   | (1,255)             | 4,087             | (7,721)            | (4,889)             |
| Net cash provided (used) by operating activities  | <u>\$ 715,499</u>   | <u>\$ 77,250</u>  | <u>\$ (78,116)</u> | <u>\$ 714,633</u>   |

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the Town received \$28,495 of food commodities from the U.S. Department of Agriculture.

See accompanying notes to the basic financial statements.

TOWN OF HANOVER, MASSACHUSETTS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2006

|   | Private -<br>purpose<br>Trusts | Agency<br>Funds   |
|---|--------------------------------|-------------------|
| <b>ASSETS</b>                                 |                                |                   |
| Cash and cash equivalents                     | \$ 469,138                     | \$ 774,033        |
| Investments                                   | 192,294                        |                   |
| Total assets                                  | <u>661,432</u>                 | <u>\$ 774,033</u> |
| <b>LIABILITIES</b>                            |                                |                   |
| Deposits                                      |                                | \$ 774,033        |
| Total liabilities                             |                                | <u>\$ 774,033</u> |
| <b>NET ASSETS, held for specific purposes</b> | <u>\$ 661,432</u>              |                   |

See accompanying notes to the basic financial statements.

TOWN OF HANOVER, MASSACHUSETTS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
YEAR ENDED JUNE 30, 2006

|   | Private -<br>purpose<br>Trusts |
|---|--------------------------------|
| <b>ADDITIONS</b>                              |                                |
| Contributions                                 | <u>\$ 23,378</u>               |
| Investment income:                            |                                |
| Interest and dividends                        | 24,212                         |
| Net appreciation in fair value of investments | <u>20,136</u>                  |
| Net investment gain                           | <u>44,348</u>                  |
| <b>Total additions</b>                        | <u>67,726</u>                  |
| <b>DEDUCTIONS</b>                             |                                |
| Transfer to other funds                       | 16,045                         |
| Miscellaneous expenses                        | <u>9,719</u>                   |
| <b>Total deductions</b>                       | <u>25,764</u>                  |
| Change in net assets                          | 41,963                         |
| Net assets - July 1, 2005                     | 619,469                        |
| Net assets - June 30, 2006                    | <u><u>\$ 661,432</u></u>       |

See accompanying notes to the basic financial statements.

TOWN OF HANOVER, MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

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 remainder of the Notes are organized to provide explanations, including required disclosures, of the Town's financial activities for the fiscal year ended June 30, 2006.

(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 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 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 charged 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 do 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.

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

## 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 and sewer treatment and delivery.

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 protection of persons and property area.

## Other fund types:

Private purpose trust funds - accounts for activities of trusts funds under Town control for which the primary beneficiaries 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 are eligible to participate in the Commonwealth of Massachusetts Teachers' Retirement System.



## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

## 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, be 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 report 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 normally due on the subsequent November 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.

## TOWN OF HANOVER, MASSACHUSETTS

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

## 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 \$14,634,708 (including petty cash of \$13,900), and the bank balance was \$15,392,894. Of the bank balance, \$2,090,287 was covered by federal and state depository insurance, and \$13,302,607 was uninsured and uncollateralized. At year end, \$160,767 was on deposit with the Massachusetts Municipal Depository Trust.

## 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.

| <u>Description</u> | <u>Fair Value</u> | <u>Category</u> |
|--------------------|-------------------|-----------------|
| Corporate stocks   | \$ <u>192,294</u> | 2               |

## TOWN OF HANOVER, MASSACHUSETTS

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

## 5. Bonds and notes payable:

As of June 30, 2006, the Town had the following outstanding long-term debt:

|                                 | <u>Date of<br/>Issue</u> | <u>Fiscal<br/>Year of<br/>Maturity</u> | <u>Original<br/>Principal<br/>Amount</u> | <u>Interest<br/>Rate</u> | <u>Amount<br/>Outstanding<br/>at June 30,<br/>2006</u> |
|---------------------------------|--------------------------|--|--|--------------------------|--|
| Inside debt limit:              |                          |  |  |                          |  |
| General purpose                 | 5/15/98                  | 2017                                   | \$ 1,975,000                             | 4.50-4.75%               | \$ 505,000   |
| Police Station<br>Construction  | 5/15/98                  | 2017                                   | 3,280,000                                | 4.50-4.90%               | 1,875,000  |
| General purpose                 | 5/15/00                  | 2018                                   | 1,620,000                                | 5.35-7.80%               | 630,000  |
| School reconstruction           | 6/15/01                  | 2021                                   | 1,485,000                                | 4.00-5.00%               | 12,370,000   |
| Library reconstruction          | 6/15/01                  | 2021                                   | 2,390,000                                | 4.00-5.00%               | 1,765,000  |
| General purpose                 | 6/15/02                  | 2012                                   | 2,315,000                                | 3.00-3.875%              | 655,000  |
| Stormwater management           | 11/26/02                 | 2023                                   | 189,825                                  | 3.00%                    | 165,779  |
| General purpose                 | 6/15/04                  | 2019                                   | 465,000                                  | 3.25-4.50%               | 325,000  |
|                                 |                          |  |  |                          | <u>18,290,779</u>                                      |
| Outside debt limit:             |                          |  |  |                          |  |
| Wells and mains                 | 5/15/98                  | 2015                                   | 744,500                                  | 4.50-4.75%               | 245,000  |
| Landfill closure                | 5/15/00                  | 2018                                   | 1,060,000                                | 5.30-7.80%               | 780,000  |
| Septic betterment               | 10/25/02                 | 2018                                   | 195,676                                  | NONE                     | 141,316  |
| Plant design and Mains          | 6/15/02                  | 2012                                   | 1,100,000                                | 3.00-3.875%              | 660,000  |
| Plant construction and<br>Mains | 6/15/04                  | 2024                                   | 5,635,500                                | 3.25-4.80%               | 5,055,000  |
|                                 |                          |  |  |                          | <u>6,881,316</u>                                       |
|                                 |                          |  |  |                          | <u>\$ 25,172,095</u>                                   |

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, 2006:

|   |               |                         |
|---|---------------|-------------------------|
| Equalized valuation - personal property and real estate,<br>January 1, 2004 |               | <u>\$ 2,091,954,600</u> |
| Debt limit - 5.0% of equalized valuation                                    |               | \$ 104,597,730          |
| Total debt (including authorized and unissued of<br>\$8,770,750)            | \$ 33,942,845 |                         |
| Less debt outside debt limit  | ( 7,548,316)  | 26,394,529              |
| Legal debt margin   |               | <u>\$ 81,326,108</u>    |

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2006:

|                                |                      |
|--------------------------------|----------------------|
| Bonds payable at July 1, 2005  | \$ 27,276,060        |
| Principal payments             | ( 2,103,965)         |
| Bonds payable at June 30, 2006 | <u>\$ 25,172,095</u> |

## TOWN OF HANOVER, MASSACHUSETTS

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

## 5. Bonds and notes payable - continued:

Debt service to maturity consists of the following:

|                     | <u>Principal</u>    | <u>Interest</u>    | <u>Total</u>        |
|---------------------|---------------------|--------------------|---------------------|
| For the year ending |                     |                    |                     |
| June 30, 2006       | \$1,879,046         | \$1,138,446        | \$3,017,492         |
| 2007                | 1,809,128           | 1,064,167          | 2,873,295           |
| 2008                | 1,794,252           | 992,080            | 2,786,332           |
| 2009                | 1,679,464           | 920,206            | 2,599,670           |
| 2010                | 1,669,726           | 851,287            | 2,521,013           |
| Thereafter          | <u>16,340,479</u>   | <u>4,529,953</u>   | <u>20,870,432</u>   |
|                     | <u>\$25,172,095</u> | <u>\$9,496,139</u> | <u>\$34,668,234</u> |

Bonds authorized and unissued at June 30, 2006 consist of the following:

## Inside debt limit:

|                                 |                  |
|---------------------------------|------------------|
| Land acquisition                | \$ 1,380,000     |
| School remodeling & repairs     | 4,735,750        |
| Vehicles and equipment          | 548,000          |
| Buildings repairs and designs   | 290,000          |
| Building purchase & renovations | 825,000          |
| Road maintenance                | <u>325,000</u>   |
|                                 | <u>8,103,750</u> |

## Outside debt limit:

|             |                     |
|-------------|---------------------|
| Water mains | <u>616,000</u>      |
|             | <u>667,000</u>      |
|             | <u>\$ 8,770,750</u> |

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 2006 assessment for debt and operations:

| <u>Overlapping Entity</u>                     | <u>Estimated<br/>Percentage</u> | <u>Assessment</u> |
|---|---------------------------------|-------------------|
| Massachusetts Bay Transportation<br>Authority | -                               | \$ 80,847         |
| South Shore Regional School District          | 12%                             | \$ 408,223        |

## 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 2006, 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, 2006, 2005, and 2004 were \$1,201,280, \$1,053,157, and \$1,014,550, respectively. For each year, the amount contributed represented 100% of the required amount.

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

## 6. Retirement plans - continued:

Teaching staff:

Plan description:

The teaching staff of the Town are 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 \$3,771,441. All full-time teaching staff are 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.

Funding policy:

Covered employees are required by state statute to contribute 5% to 11% 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. 2007 Budget:

The Town has authorized a fiscal 2007 operating and capital budget totaling \$41,216,978 which will be financed from the following sources:

|  |                      |
|--|----------------------|
| Fiscal 2007 tax levies, state grants,<br>departmental receipts, etc. | \$ 38,917,407        |
| Available surplus  | 1,544,250            |
| Other available funds  | <u>755,321</u>       |
|  | <u>\$ 41,216,978</u> |

In addition, the Town has encumbered funds and carried forward appropriations totaling \$1,086,334 from fiscal year 2006 and prior years for projects authorized by the Town meeting but not yet 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 is 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, 2006.

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, 191 retirees are provided postretirement health insurance benefits and 191 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 2006 (net of retiree contributions) was \$602,339.

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 seven participants in the program at June 30, 2006.

TOWN OF HANOVER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

10.

The following table provides a summary of changes in capital assets (in thousands):

Governmental activities:

|   | ASSETS                            |                                 |                                 | DEPRECIATION                      |                                 |                                 | Net Book Value<br>June 30 2006 |
|---|-----------------------------------|---------------------------------|---------------------------------|-----------------------------------|---------------------------------|---------------------------------|--------------------------------|
|   | Beginning Balance<br>July 1, 2005 | Transfers, Deletions, Additions | Ending Balance<br>June 30, 2006 | Beginning Balance<br>July 1, 2005 | Transfers, Deletions, Additions | Ending Balance<br>June 30, 2006 |                                |
| <b>General administration</b>             |                                   |                                 |                                 |                                   |                                 |                                 |                                |
| Land                                      | 3,393                             | \$                              | \$ 3,393                        |                                   |                                 |                                 | \$ 3,393                       |
| Buildings                                 | 615                               |                                 | 615                             | (437)                             | (15)                            | (452)                           | 163                            |
|   | 4,008                             | 0                               | 4,008                           | (437)                             | (15)                            | (452)                           | 3,556                          |
| <b>Community development</b>              |                                   |                                 |                                 |                                   |                                 |                                 |                                |
| Land                                      | 1,716                             |                                 | 1,716                           | 0                                 | 0                               | 0                               | 1,716                          |
|   | 1,716                             | 0                               | 1,716                           | 0                                 | 0                               | 0                               | 1,716                          |
| <b>Protection of persons and property</b> |                                   |                                 |                                 |                                   |                                 |                                 |                                |
| Land                                      | 289                               |                                 | 289                             |                                   |                                 |                                 | 289                            |
| Buildings                                 | 4,481                             |                                 | 4,481                           | (1,258)                           | (112)                           | (1,370)                         | 3,111                          |
| Vehicles                                  | 2,781                             |                                 | 2,781                           | (2,260)                           | (85)                            | (2,345)                         | 436                            |
| Improvements                              | 295                               |                                 | 295                             | (177)                             | (27)                            | (204)                           | 91                             |
| Equipment                                 | 492                               |                                 | 492                             | (94)                              | (24)                            | (118)                           | 374                            |
|   | 8,338                             | 0                               | 8,338                           | (3,789)                           | (248)                           | (4,037)                         | 4,301                          |
| <b>Public works</b>                       |                                   |                                 |                                 |                                   |                                 |                                 |                                |
| Land                                      | 200                               |                                 | 200                             |                                   |                                 |                                 | 200                            |
| Buildings                                 | 448                               |                                 | 448                             | (348)                             | (11)                            | (359)                           | 89                             |
| Vehicles                                  | 1,771                             | 135                             | 1,906                           | (1,687)                           | (46)                            | (1,733)                         | 173                            |
| Improvements                              | 113                               |                                 | 113                             | (54)                              | (6)                             | (60)                            | 53                             |
| Equipment                                 | 1,854                             | 90                              | 1,944                           | (665)                             | (96)                            | (761)                           | 1,183                          |
| Infrastructure                            | 21,035                            |                                 | 21,035                          | (12,084)                          | (404)                           | (12,488)                        | 8,547                          |
|   | 25,421                            | 225                             | 25,646                          | (14,838)                          | (563)                           | (15,401)                        | 10,245                         |
| <b>Human services</b>                     |                                   |                                 |                                 |                                   |                                 |                                 |                                |
| Land                                      | 2                                 |                                 | 2                               |                                   |                                 |                                 | 2                              |
| Buildings                                 | 35                                |                                 | 35                              | (24)                              |                                 | (24)                            | 11                             |
| Vehicles                                  | 59                                |                                 | 59                              | (59)                              |                                 | (59)                            | 0                              |
|   | 96                                | 0                               | 96                              | (83)                              | 0                               | (83)                            | 13                             |
| <b>Education</b>                          |                                   |                                 |                                 |                                   |                                 |                                 |                                |
| Land                                      | 521                               |                                 | 521                             |                                   |                                 |                                 | 521                            |
| Buildings                                 | 24,714                            |                                 | 24,714                          | (11,034)                          | (539)                           | (11,573)                        | 13,141                         |
| Equipment                                 | 35                                |                                 | 35                              | (19)                              |                                 | (19)                            | 16                             |
| Improvements                              | 604                               |                                 | 604                             | (346)                             | (27)                            | (373)                           | 231                            |
| Vehicles                                  | 293                               |                                 | 293                             | (292)                             | (1)                             | (293)                           | 0                              |
|   | 26,167                            | 0                               | 26,167                          | (11,691)                          | (567)                           | (12,258)                        | 13,909                         |

TOWN OF HANOVER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

10.

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

|  | ASSETS                               |                                       | DEPRECIATION                       |                                       | Net<br>Book<br>Value<br>June 30, 2006 |
|--|--------------------------------------|---------------------------------------|------------------------------------|---------------------------------------|---------------------------------------|
|  | Beginning<br>Balance<br>July 1, 2005 | Transfers,<br>Deletions,<br>Additions | Ending<br>Balance<br>June 30, 2006 | Transfers,<br>Deletions,<br>Additions |                                       |
| <b>Culture &amp; recreation</b>        |                                      |                                       |                                    |                                       |                                       |
| Land                                   | 65                                   |                                       |                                    |                                       | 65                                    |
| Buildings                              | 7,729                                |                                       |                                    |                                       | 5,941                                 |
| Improvements                           | 44                                   |                                       |                                    |                                       | 12                                    |
|  | <u>7,838</u>                         |                                       |                                    |                                       | <u>6,018</u>                          |
| <b>Total governmental activities</b>   | <b>\$ 73,584</b>                     | <b>\$ 225</b>                         | <b>\$ 73,809</b>                   | <b>\$ (1,588)</b>                     | <b>\$ 39,758</b>                      |
| <b>Business-type activities:</b>       |                                      |                                       |                                    |                                       |                                       |
| <b>Water Department</b>                |                                      |                                       |                                    |                                       |                                       |
| Land                                   | 977                                  |                                       |                                    |                                       | 977                                   |
| Buildings                              | 1,022                                |                                       |                                    |                                       | 5,709                                 |
| Infrastructure                         | <u>16,353</u>                        | <u>5,393</u>                          | <u>6,415</u>                       | <u>(325)</u>                          | <u>5,313</u>                          |
|  | <u>18,352</u>                        | <u>(5,323)</u>                        | <u>11,030</u>                      | <u>(42)</u>                           | <u>11,999</u>                         |
|  |                                      | <u>70</u>                             | <u>18,422</u>                      | <u>(367)</u>                          |                                       |
| <b>Ambulance fund</b>                  |                                      |                                       |                                    |                                       |                                       |
| Vehicles                               | 192                                  |                                       |                                    |                                       | 104                                   |
|  |                                      | <u>57</u>                             | <u>249</u>                         | <u>(30)</u>                           |                                       |
| <b>Total business-type activities:</b> | <b>\$ 18,544</b>                     | <b>\$ 127</b>                         | <b>\$ 18,671</b>                   | <b>\$ (397)</b>                       | <b>\$ 12,103</b>                      |

TOWN OF HANOVER, MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

11. Intergovernmental receivables:

Intergovernmental receivables principally includes amounts due from the Massachusetts School Building Authority (MSBA) (\$14,006,769), the Commonwealth of Massachusetts for the Town's school lunch program (\$5,170), for road construction (\$427,912), and for other programs (\$43,593). Revenue related to the amount due from the MSBA has been deferred since it will be received in annual installments of \$933,785 through fiscal year 2022. Revenue related to the road construction project has likewise been deferred since it will not be received until the town makes eligible expenditures. Other amounts due have been received in their entirety by January 20, 2006.

12. Cash overdraft:

The capital projects funds has a cash overdraft from the general fund in the amount of \$349,900, which is reflected in balance sheet of the governmental funds as due from the capital project and due to the general fund. This overdraft will be satisfied when long-term debt is issued.

13. Capital projects deficit fund balance:

Based on the application of accounting principles generally accepted in the United States of America, 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 Expected to be Refinanced" have not been met. The debt is considered to be 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.



TOWN OF HANOVER, MASSACHUSETTS

SCHEDULE OF CASH

JUNE 30, 2006

DETAIL OF BALANCES

|  |                      |
|--|----------------------|
| Interest bearing:                        |                      |
| Century Bank                             | \$ 3,879,480         |
| Rockland Trust Company                   | 173,473              |
| Massachusetts Municipal Depository Trust |                      |
| TD Banknorth                             | 160,767              |
| Citizens Bank                            | 1,140,070            |
| First Trade Union Bank                   | 3,347,077            |
| Unibank                                  | 2,062,479            |
| Mellon Bank                              | 2,022                |
| Merrill Lynch                            | 127,091              |
| Sovereign Bank                           | 120,521              |
| Weymouth Bank                            | 2,417,081            |
| Eastern Bank                             | 1,040,730            |
|  | 150,017              |
| Non-interest bearing:                    |                      |
| Petty cash                               |                      |
|  | <u>13,900</u>        |
| Total                                    | <u>\$ 14,634,708</u> |

TOWN OF HANOVER, MASSACHUSETTS  
SCHEDULE OF TAXES  
YEAR ENDED JUNE 30, 2006

|  | UNCOLLECTED<br>TAXES<br>June 30, 2005 | Commitments   | Abatements<br>and<br>Adjustments | Transfer<br>to<br>Tax Title | Collections,<br>Net of Refunds | UNCOLLECTED<br>TAXES<br>June 30, 2006 | Per Tax<br>Collector's<br>Detail<br>Listing |
|--|---------------------------------------|---------------|----------------------------------|-----------------------------|--------------------------------|---------------------------------------|---|
| REAL ESTATE                              |                                       |               |                                  |                             |                                |                                       |   |
|  | 2005 \$ 153,201                       | \$ 51,557     | \$ (7,335)                       | \$ (3,279)                  | \$ (190,441)                   | \$ 3,703                              | \$ 3,703                                    |
|  | 2006 153,201                          | 25,308,243    | (112,216)                        | (13,836)                    | (24,981,381)                   | 200,810                               | 200,810                                     |
|  |                                       | 25,359,800    | (119,551)                        | (17,115)                    | (25,171,822)                   | 204,513                               | 204,513                                     |
| PERSONAL PROPERTY                        |                                       |               |                                  |                             |                                |                                       |   |
|  | 2004 389                              |               |                                  |                             | (389)                          | 0                                     | 0   |
|  | 2005 1,682                            |               | (440)                            |                             | (1,026)                        | 216                                   | 216   |
|  | 2006 2,071                            | 396,528       | (4,071)                          |                             | (386,067)                      | 6,390                                 | 6,390                                       |
|  |                                       | 396,528       | (4,511)                          | 0                           | (387,482)                      | 6,606                                 | 6,606                                       |
| TOTAL TAXES RECEIVABLE                   | \$ 155,272                            | \$ 25,756,328 | \$ (124,062)                     | \$ (17,115)                 | \$ (25,559,304)                | \$ 211,119                            | \$ 211,119                                  |
| MOTOR VEHICLE EXCISE                     |                                       |               |                                  |                             |                                |                                       |   |
| 2003 AND PRIOR                           | \$ 11,239                             | \$ 3,212      | \$ (998)                         | \$                          | \$ (6,071)                     | \$ 7,382                              | \$ 7,382                                    |
| 2004 29,661                              | 26,515                                | (11,901)      | (11,901)                         |                             | (30,918)                       | 13,357                                | 13,357                                      |
| 2005 242,782                             | 347,726                               | (52,889)      | (52,889)                         |                             | (505,073)                      | 32,546                                | 32,546                                      |
| 2006 283,662                             | 1,900,688                             | (42,072)      | (42,072)                         |                             | (1,680,885)                    | 177,731                               | 177,731                                     |
| TOTAL                                    |                                       | 2,278,141     | (107,860)                        |                             | (2,222,947)                    | 231,016                               | 231,016                                     |
| VESSEL EXCISE                            |                                       |               |                                  |                             |                                |                                       |   |
| 2003 AND PRIOR                           | 510                                   |               | (495)                            |                             | (15)                           | 0                                     | 0   |
| 2004 223                                 | 223                                   |               | (193)                            |                             | (30)                           | 0                                     | 0   |
| 2005 369                                 | 369                                   |               | (118)                            |                             | (251)                          | 0                                     | 0   |
| 2006 1,102                               | 1,102                                 | 0             | (806)                            |                             | (296)                          | 0                                     | 0   |
| TOTAL MOTOR VEHICLE AND<br>OTHER EXCISES | \$ 284,784                            | \$ 2,278,141  | \$ (108,666)                     | \$                          | \$ (2,223,243)                 | \$ 231,016                            | \$ 231,016                                  |

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

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2006

| <u>Federal Grantor/<br/>Pass-Through Grantor/<br/>Program Title</u>         | <u>Federal<br/>Catalogue<br/>Number</u> | <u>Pass-Through<br/>Grantor's<br/>Number</u> | <u>Disbursements/<br/>Expenditures</u> |
|---|---|--|--|
| <u>DEPARTMENT OF EDUCATION</u>  |   |  |  |
| Passed through Commonwealth of Massachusetts<br>Department of Education     |   |  |  |
| 94-142, SPED Allocation   | 84.027                                  | 240-089-5-0122-F                             | \$ 5,112                               |
| 94-142, SPED Allocation   | 84.027                                  | 240-089-4-0122-G                             | 518,252                                |
| Early Childhood   | 84.173                                  | 262-024-5-0122-F                             | 1,060                                  |
| Title IID   | 84.318                                  | 160-124-5-0122-G                             | 1,110                                  |
| Safe & Drug Free Schools  | 84.186                                  | 331-068-5-0122-F                             | 4,200                                  |
| Title IID   | 84.318                                  | 160-124-5-0122-F                             | 478                                    |
| Title V   | 84.151                                  | 302-122-5-0122-G                             | 3,384                                  |
| SPED program improvement  | 84.027                                  | 274-107-5-0122-F                             | 2,035                                  |
| Title I   | 84.010                                  | 305-256-5-0122-F                             | 900                                    |
| Title II  | 84.367                                  | 140-143-5-0122-G                             | 38,663                                 |
| SPED, professional development  | 84.027                                  | 289-017-5-0122-G                             | 17,015                                 |
| Early Childhood   | 84.173                                  | 262-024-5-0122-G                             | 32,529                                 |
| SPED Program improvement  | 84.027                                  | 274-107-4-0122-G                             | 11,920                                 |
| SPED professional development   | 84.027                                  | 289-017-5-0122-G                             | 9,220                                  |
| Title I   | 84.010                                  | 305-256-5-0122-G                             | 55,400                                 |
| Drug free schools   | 84.186                                  | 331-068-5-0122-G                             | 1,337                                  |
| Total Department of Education   |   |  | <u>702,615</u>                         |
| <u>DEPARTMENT OF HOMELAND SECURITY</u>                                      |   |  |  |
| Passed through Commonwealth of Massachusetts<br>Department of Public Safety |   |  |  |
| DHS/ODP firefighter grant   | 97.036                                  |  | 43,372                                 |
| Assistance to firefighters grant  | 97.044                                  |  | 24,246                                 |
| Police homeland security  | 97.007                                  | SCEPSSHS26112108                             | 8,914                                  |
| Police seatbelt enforcement   | 16.592                                  |  | <u>5,021</u>                           |
| Total Department of Homeland Security                                       |   |  | <u>81,553</u>                          |
| <u>DEPARTMENT OF HEALTH AND HUMAN<br/>SERVICES</u>                          |   |  |  |
| Emergency preparedness  | 93.283                                  |  | <u>1,174</u>                           |
| <u>DEPARTMENT OF AGRICULTURE</u>  |   |  |  |
| Passed through Commonwealth<br>of Massachusetts Department<br>of Education  |   |  |  |
| Aid-in-Kind Food Subsidy  | 10.550                                  |  | 28,495                                 |
| National School Lunch Program   | 10.555                                  | 24-030-4580-006                              | <u>79,277</u>                          |
| Total Department of Agriculture   |   |  | <u>107,772</u>                         |
| Total Federal Award   |   |  | <u>\$ 893,114</u>                      |

See independent auditor's report on additional information on page 1 and notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2006

(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 2006, 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 \$28,495. 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 2006 or 2005 single audits.

TOWN OF HANOVER, MASSACHUSETTS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

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