

TOWN OF HANOVER, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Hanover, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hanover, Massachusetts, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Hanover's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hanover, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis appearing on the following pages and the supplementary information appearing on page 45 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied

Additional Offices:

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

certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 20, 2011 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company P.C.

Andover, Massachusetts
May 20, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Hanover, we offer readers this narrative overview and analysis of the financial activities of the Town of Hanover for the fiscal year ended June 30, 2010.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include water activities.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water and sewer operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water operations, which is considered to be a major fund.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 70,766,814 (i.e., net assets), a change of \$ (1,700,281) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 21,372,933, a change of \$ (10,607,835) in comparison to the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 5,068,505, a change of \$ 62,217 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 42,560,205, a change of \$ (2,940,135) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years (in thousands):

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 56,679	\$ 71,484	\$ 2,318	\$ 2,493	\$ 58,997	\$ 73,977
Capital assets	58,302	41,825	10,802	11,176	69,104	53,001
Total assets	<u>114,981</u>	<u>113,309</u>	<u>13,120</u>	<u>13,669</u>	<u>128,101</u>	<u>126,978</u>
Long-term liabilities outstanding	43,192	42,879	5,434	5,673	48,626	48,552
Other liabilities	7,715	5,108	993	712	8,708	5,820
Total liabilities	<u>50,907</u>	<u>47,987</u>	<u>6,427</u>	<u>6,385</u>	<u>57,334</u>	<u>54,372</u>
Net assets:						
Invested in capital assets, net	28,683	19,964	5,224	5,024	33,907	24,988
Restricted	5,293	6,226	-	-	5,293	6,226
Unrestricted	30,098	39,132	1,469	2,260	31,567	41,392
Total net assets	<u>\$ 64,074</u>	<u>\$ 65,322</u>	<u>\$ 6,693</u>	<u>\$ 7,284</u>	<u>\$ 70,767</u>	<u>\$ 72,606</u>

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,612	\$ 2,310	\$ 3,078	\$ 2,662	\$ 6,690	\$ 4,972
Operating grants and contributions	12,911	14,558	-	-	12,911	14,558
Capital grants and contributions	100	508	-	-	100	508
General revenues:						
Property taxes	32,039	29,547	-	-	32,039	29,547
Excises	1,777	1,941	-	-	1,777	1,941
Penalties and interest on taxes	421	-	-	-	421	-
Grants and contributions not restricted to specific programs	2,090	2,953	-	-	2,090	2,953
Investment income	156	286	-	49	156	335
Other	488	1,032	-	-	488	1,032
Total revenues	<u>53,594</u>	<u>53,135</u>	<u>3,078</u>	<u>2,711</u>	<u>56,672</u>	<u>55,846</u>
Expenses:						
General government	2,099	1,842	-	-	2,099	1,842
Public safety	6,841	6,475	-	-	6,841	6,475
Education	32,466	31,824	-	-	32,466	31,824
Public works	3,499	4,023	-	-	3,499	4,023
Human services	605	441	-	-	605	441
Culture and recreation	1,047	985	-	-	1,047	985
Employee benefits	6,467	7,784	-	-	6,467	7,784
Intergovernmental	511	490	-	-	511	490
Interest on long-term debt	1,589	1,148	-	277	1,589	1,425
Miscellaneous	34	-	-	-	34	-
Water	-	-	3,214	3,070	3,214	3,070
Total expenses	<u>55,158</u>	<u>55,012</u>	<u>3,214</u>	<u>3,347</u>	<u>58,372</u>	<u>58,359</u>
Change in net assets before permanent fund contributions	(1,564)	(1,877)	(136)	(636)	(1,700)	(2,513)
Transfers in (out)	<u>316</u>	<u>(105)</u>	<u>(316)</u>	<u>-</u>	<u>-</u>	<u>(105)</u>
Increase in net assets	(1,248)	(1,982)	(452)	(636)	(1,700)	(2,618)
Net assets - beginning of year (as restated)	<u>65,322</u>	<u>67,304</u>	<u>7,145</u>	<u>7,920</u>	<u>72,467</u>	<u>75,224</u>
Net assets - end of year	<u>\$ 64,074</u>	<u>\$ 65,322</u>	<u>\$ 6,693</u>	<u>\$ 7,284</u>	<u>\$ 70,767</u>	<u>\$ 72,606</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 70,766,814, a change of \$ (1,700,281) from the prior year.

The largest portion of net assets \$ 33,906,345 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital

assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 5,293,228 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 31,567,241 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (1,248,093). Key elements of this change are as follows:

General fund operations	\$ 450,033
Community preservation fund - accrual basis	283,689
Nonmajor funds surplus	45,270
Principal debt service in excess of depreciation expense	795,718
Accrued other post-employment benefits	(2,642,513)
Other GAAP accruals	<u>(180,290)</u>
Total	\$ <u>(1,248,093)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ (452,188). Key elements of this change are as follows:

Water operations	\$ (452,188)
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D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 21,372,933, a change of \$ (10,607,835) in comparison with the prior year. Key elements of this change are as follows:

General fund operating results	\$ 450,033
High school capital project expenditures	(12,148,442)
MSBA proceeds	5,153,391
Community preservation fund - accrual basis	(1,057,851)
Senior center capital project - accrual basis	(3,050,236)
Nonmajor funds surplus	<u>45,270</u>
Total	<u>\$ (10,607,835)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 5,068,505, while total fund balance was \$ 8,717,853. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 10.2 percent of total general fund expenditures, while total fund balance represents 17.5 percent of that same amount.

The fund balance of the general fund changed by \$ 450,033 during the current fiscal year. Key factors in this change are as follows:

Revenue surplus	\$ 344,988
Appropriation tumbucks by departments	1,352,644
Property tax collections shortfall	(83,917)
Current year encumbrances to be spent in the subsequent year, over prior year encumbrances to be spent in the current year	296,724
Use of free cash	(1,476,576)
Use of overlay	(126,324)
Other	<u>142,494</u>
Total	<u>\$ 450,033</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 1,469,182, a change of \$ (790,799) in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There were no differences between the original budget and the final budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 69,104,698 (net of accumulated depreciation), a change of \$ 16,103,790 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- High school construction in progress \$ 12,148,442
- Senior center building \$ 3,050,236
- King Street recreation fields construction in progress \$ 1,231,540

Additional information on capital assets can be found in the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 42,560,205, all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

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

Office of Finance Director
Town of Hanover, Massachusetts
550 Hanover Street
Hanover, MA 02339

TOWN OF HANOVER, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 16,432,530	\$ 1,173,336	\$ 17,605,866
Investments	9,623,534	-	9,623,534
Receivables, net of allowance for uncollectibles:			
Property taxes	749,244	-	749,244
Excises	86,732	-	86,732
Departmental and other	1,534,158	1,144,543	2,678,701
Intergovernmental	18,279,149	-	18,279,149
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	200,992	-	200,992
Intergovernmental	9,772,194	-	9,772,194
Capital Assets:			
Land and construction in progress	26,371,880	977,779	27,349,659
Other assets, net of accumulated depreciation	31,930,531	9,824,508	41,755,039
TOTAL ASSETS	114,980,944	13,120,166	128,101,110
LIABILITIES			
Current:			
Warrants payable	1,599,291	39,709	1,639,000
Accounts payable	25,536	-	25,536
Accrued liabilities	132,366	70,977	203,343
Notes payable	2,440,000	300,000	2,740,000
Other current liabilities	769,027	85	769,112
Current portion of long-term liabilities:			
Bonds payable	2,549,572	575,154	3,124,726
Compensated absence	161,644	-	161,644
Bond premium	37,877	-	37,877
Other liabilities	-	7,988	7,988
Noncurrent:			
Bonds payable, net of current portion	34,431,956	5,003,523	39,435,479
Compensated absence	3,071,235	-	3,071,235
OPEB liability	5,285,026	278,160	5,563,186
Bond premium	403,392	-	403,392
Other liabilities, net of current portion	-	151,778	151,778
TOTAL LIABILITIES	50,906,922	6,427,374	57,334,296
NET ASSETS			
Invested in capital assets, net of related debt	28,682,735	5,223,610	33,906,345
Restricted for:			
Grants and other statutory restrictions	4,674,614	-	4,674,614
Permanent funds:			
Nonexpendable	206,960	-	206,960
Expendable	411,654	-	411,654
Unrestricted	30,098,059	1,469,182	31,567,241
TOTAL NET ASSETS	\$ 64,074,022	\$ 6,692,792	\$ 70,766,814

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

	Program Revenues				Business-Type Activities	Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		
Governmental Activities:						
General government	\$ 2,098,435	\$ 1,227,369	\$ -	\$ (871,066)	\$ -	\$ (871,066)
Public safety	6,841,036	825,045	-	(5,785,851)	-	(5,785,851)
Education	32,466,378	1,269,000	-	(18,602,685)	-	(18,602,685)
Public works	3,499,126	141,158	-	(3,258,211)	-	(3,258,211)
Health and human services	605,124	8,794	99,757	(530,315)	-	(530,315)
Culture and recreation	1,046,753	66,015	-	(885,468)	-	(885,468)
Employee benefits	6,467,022	20,353	-	(6,467,022)	-	(6,467,022)
Interest	1,589,315	-	-	(1,589,315)	-	(1,589,315)
Intergovernmental	510,815	-	-	(510,815)	-	(510,815)
Miscellaneous	33,932	-	-	(33,932)	-	(33,932)
Total Governmental Activities	55,157,936	12,911,201	99,757	(38,534,680)	-	(38,534,680)
Business-Type Activities:						
Water services	3,214,132	-	-	-	(136,667)	(136,667)
Total Business-Type Activities	3,214,132	-	-	-	(136,667)	(136,667)
Total	\$ 58,372,068	\$ 12,911,201	\$ 99,757	(38,534,680)	(136,667)	(38,671,347)
General Revenues and Transfers:						
Property taxes				32,039,106	-	32,039,106
Excises				1,777,105	-	1,777,105
Penalties, interest and other taxes				420,893	-	420,893
Grants and contributions not restricted to specific programs				2,090,304	-	2,090,304
Investment income				155,685	-	155,685
Miscellaneous				487,973	-	487,973
Transfers, net				315,521	(315,521)	-
Total general revenues and transfers				37,286,587	(315,521)	36,971,066
Change in Net Assets				(1,248,093)	(452,188)	(1,700,281)
Net Assets:						
Beginning of year, as restated				65,322,115	7,144,980	72,467,095
End of year				\$ 64,074,022	\$ 6,692,792	\$ 70,766,814

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

ASSETS	General	High School Capital Project Fund	Community Preservation Fund	Senior Center Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 1,138,465	\$ 7,560,663	\$ 3,976,630	\$ 569,278	\$ 3,187,494	\$ 16,432,530
Investments	9,285,862	-	-	-	337,672	9,623,534
Receivables:						
Property taxes	1,063,227	-	-	-	-	1,063,227
Excises	137,347	-	-	-	8,574	145,921
Departmental and other	-	-	15,328	-	1,808,875	1,824,203
Due from other governments	-	18,279,149	-	-	-	18,279,149
TOTAL ASSETS	\$ 11,624,901	\$ 25,839,812	\$ 3,991,958	\$ 569,278	\$ 5,342,615	\$ 47,368,564
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants payable	\$ 1,237,068	\$ 38,639	\$ 192,653	\$ -	\$ 130,932	\$ 1,599,292
Accounts payable	25,536	-	-	-	-	25,536
Deferred revenues	1,049,851	18,279,149	15,328	-	1,817,449	21,161,777
Deposits held in custody	-	-	-	-	174,433	174,433
Notes payable	-	-	1,500,000	940,000	-	2,440,000
Other liabilities	594,593	-	-	-	-	594,593
TOTAL LIABILITIES	2,907,048	18,317,788	1,707,981	940,000	2,122,814	25,995,631
Fund Balances:						
Reserved for:						
Encumbrances and continuing appropriations	1,498,013	-	679,512	-	427,826	2,605,351
Expenditures	1,710,066	-	-	-	1,868,034	3,578,100
Perpetual (unexpendable) permanent funds	-	-	-	-	206,960	206,960
Future debt	441,269	-	-	-	-	441,269
Unreserved:						
Undesignated, reported in:						
General fund	5,068,505	-	-	-	-	5,068,505
Special revenue funds	-	-	1,604,465	-	94,776	1,699,241
Capital project funds	-	7,522,024	-	(370,722)	210,551	7,361,853
Permanent funds	-	-	-	-	411,654	411,654
TOTAL FUND BALANCES	8,717,853	7,522,024	2,283,977	(370,722)	3,219,801	21,372,933
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,624,901	\$ 25,839,812	\$ 3,991,958	\$ 569,278	\$ 5,342,615	\$ 47,368,564

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2010

Total governmental fund balances	\$ 21,372,933
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	58,302,411
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	20,699,552
• Noncurrent assets, including MSBA reimbursements for contracted assistance projects, are not receivable in the current period and, therefore, are not reported in the governmental funds.	9,772,194
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(132,366)
• Long-term liabilities, including bonds payable, compensated absences, and landfill liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(45,940,702)</u>
Net assets of governmental activities	<u><u>\$ 64,074,022</u></u>

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>High School Capital Project</u>	<u>Community Preservation Fund</u>	<u>Senior Center Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Property taxes	\$ 31,660,282	-	\$ 728,010	-	\$ -	\$ 32,388,292
Excises	1,817,405	-	-	-	2,518	1,819,923
Penalties, interest, and other taxes	420,893	-	-	-	-	420,893
Charges for services	678,180	-	-	-	2,441,015	3,119,195
Licenses and permits	419,004	-	-	-	-	419,004
Fines and forfeitures	114,150	-	-	-	3,327	117,477
Intergovernmental	13,916,017	5,153,391	291,996	-	1,060,732	20,422,136
Investment income	88,792	-	13,315	-	53,579	155,686
Miscellaneous	121,617	-	-	-	365,981	487,598
Contributions	-	-	-	-	768,601	768,601
Total Revenues	49,236,340	5,153,391	1,033,321	-	4,695,753	60,118,805
Expenditures:						
Current:						
General government	1,489,650	-	1,863,182	-	-	3,352,832
Public safety	6,051,452	-	-	-	38,673	6,090,125
Education	29,213,890	12,148,442	-	-	3,143,683	44,506,015
Public works	2,486,478	-	-	-	327,433	2,813,911
Health and human services	324,427	-	-	3,050,236	89,113	3,463,776
Culture and recreation	568,503	-	-	-	279,620	848,123
Employee benefits	5,364,250	-	-	-	-	5,364,250
Miscellaneous	-	-	-	-	59,155	59,155
Debt service	3,809,864	-	223,295	-	-	4,033,159
Intergovernmental	510,815	-	-	-	-	510,815
Total Expenditures	49,819,329	12,148,442	2,086,477	3,050,236	3,937,677	71,042,161
Excess (deficiency) of revenues over expenditures	(582,989)	(6,995,051)	(1,053,156)	(3,050,236)	758,076	(10,923,356)
Other Financing Sources (Uses):						
Transfers in	1,033,022	-	-	-	-	1,033,022
Transfers out	-	-	(4,695)	-	(712,806)	(717,501)
Total Other Financing Sources (Uses)	1,033,022	-	(4,695)	-	(712,806)	315,521
Change in fund balance	450,033	(6,995,051)	(1,057,851)	(3,050,236)	45,270	(10,607,835)
Fund Equity, at Beginning of Year, as restated	8,267,820	14,517,075	3,341,828	2,679,514	3,174,531	31,980,768
Fund Equity, at End of Year	\$ 8,717,853	\$ 7,522,024	\$ 2,283,977	\$ (370,722)	\$ 3,219,801	\$ 21,372,933

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2010

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (10,607,835)

- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay purchases	18,048,676
Depreciation	(1,571,454)

- Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (e.g., property taxes) differ between the two statements. This amount represents the net change in deferred revenue. (5,589,389)

- Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. (935,471)

- The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:

Repayments of debt	2,367,172
Amortization of bond premium	57,738

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 44,531

- Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(419,548)
Net OPEB obligation	<u>(2,642,513)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (1,248,093)

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues and other sources:				
Property taxes	\$ 31,744,199	\$ 31,744,199	\$ 31,744,199	\$ -
Excises	1,888,500	1,888,500	1,817,405	(71,095)
Penalties, interest, and other taxes	270,000	270,000	420,893	150,893
Charges for services	400,000	400,000	700,247	300,247
Licenses and permits	482,500	482,500	447,829	(34,671)
Fines and forfeitures	100,000	100,000	114,150	14,150
Intergovernmental	8,899,386	8,899,386	8,910,332	10,946
Investment income	185,000	185,000	88,792	(96,208)
Other revenues	-	-	70,726	70,726
Other financing sources:				
Transfers in	1,033,022	1,033,022	1,033,022	-
Use of overlay surplus	126,324	126,324	126,324	-
Use of fund balance	1,476,576	1,476,576	1,476,576	-
Total Revenues	46,605,507	46,605,507	46,950,495	344,988
Expenditures and other uses:				
Current:				
General government	1,625,784	1,625,784	1,532,852	92,932
Public safety	6,180,574	6,180,574	6,043,939	136,635
Education	24,135,681	24,135,681	24,047,388	88,293
Public works	2,837,015	2,837,015	2,430,178	406,837
Health and human services	353,060	353,060	324,785	28,275
Culture and recreation	576,458	576,458	568,100	8,358
Employee benefits	5,927,246	5,927,246	5,412,638	514,608
Debt service	4,427,618	4,427,618	4,382,168	45,450
Intergovernmental	542,071	542,071	510,815	31,256
Total Expenditures	46,605,507	46,605,507	45,252,863	1,352,644
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,697,632	\$ 1,697,632

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Business-Type Activities Enterprise Funds
	Water Fund
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ 1,173,336
Departmental and other	<u>1,144,543</u>
Total current assets	2,317,879
Noncurrent:	
Capital Assets:	
Land and construction in progress	977,779
Other assets, net of accumulated depreciation	<u>9,824,508</u>
Total noncurrent assets	<u>10,802,287</u>
TOTAL ASSETS	13,120,166
<u>LIABILITIES</u>	
Current:	
Warrants payable	39,709
Accrued liabilities	70,977
Notes payable	300,000
Other current liabilities	85
Current portion of long-term liabilities:	
Bonds payable	575,154
Other liabilities	<u>7,988</u>
Total current liabilities	993,913
Noncurrent:	
Bonds payable, net of current portion	5,003,523
Net OPEB obligation	278,160
Other liabilities, net of current portion	<u>151,778</u>
Total noncurrent liabilities	<u>5,433,461</u>
TOTAL LIABILITIES	6,427,374
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	5,223,610
Unrestricted	<u>1,469,182</u>
TOTAL NET ASSETS	<u>\$ 6,692,792</u>

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities <u>Enterprise Funds</u>
	<u>Water Fund</u>
Operating Revenues:	
Charges for services	\$ <u>3,070,791</u>
Total Operating Revenues	3,070,791
Operating Expenses:	
Operating expenses	2,392,363
Depreciation	373,432
Employee benefits	139,080
Other	<u>12,629</u>
Total Operating Expenses	<u>2,917,504</u>
Operating Income (Loss)	153,287
Nonoperating Revenues (Expenses):	
Investment income	6,674
Interest expense	<u>(296,628)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(289,954)</u>
Income (Loss) Before Transfers	(136,667)
Transfers:	
Transfers out	<u>(315,521)</u>
Change in Net Assets	(452,188)
Net Assets at Beginning of Year, as restated	<u>7,144,980</u>
Net Assets at End of Year	<u><u>\$ 6,692,792</u></u>

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Enterprise Funds
	Water Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 2,764,752
Payments to vendors and employees	<u>(2,367,605)</u>
Net Cash Provided By (Used For) Operating Activities	397,147
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfers out	<u>(315,521)</u>
Net Cash (Used For) Noncapital Financing Activities	(315,521)
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Proceeds from issuance of bonds and notes	300,000
Principal payments on bonds and notes	(572,963)
Interest expense	<u>(296,628)</u>
Net Cash (Used For) Capital and Related Financing Activities	(569,591)
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>6,674</u>
Net Cash (Used For) Investing Activities	<u>6,674</u>
Net Change in Cash and Short-Term Investments	(481,291)
Cash and Short-Term Investments, Beginning of Year	<u>1,654,627</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 1,173,336</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income (loss)	\$ 153,287
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	373,432
Changes in assets and liabilities:	
User fees	(306,124)
Warrants and accounts payable	(76,572)
Accrued liabilities	46,205
Compensated absences	67,754
Other liabilities	<u>139,165</u>
Net Cash Provided By (Used For) Operating Activities	<u><u>\$ 397,147</u></u>

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>		
Cash and short-term investments	\$ 78,530	\$ 661,110
Total Assets	78,530	661,110
<u>LIABILITIES AND NET ASSETS</u>		
Warrants payable	20,432	847
Escrow deposits	-	660,263
Total Liabilities	20,432	661,110
<u>NET ASSETS</u>		
Net assets	\$ 58,098	\$ -

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Private Purpose Trust Funds</u>
Additions:	
Investment Income (Loss):	
Increase (decrease) in fair value of investments	343
Net investment income (loss)	<u>343</u>
Total additions	343
Deductions:	
Other	<u>5,865</u>
Total deductions	<u>5,865</u>
Net increase (decrease)	(5,522)
Net assets:	
Beginning of year, as restated	<u>63,620</u>
End of year	<u>\$ 58,098</u>

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2010, it was determined that no entities met the required GASB 39 criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

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

funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The High School Construction Fund reports activities related to the construction of a new high school whose costs are funded in part by

the Massachusetts School Building Authority and through long-term debt.

- The Community Preservation Fund reports all open space, historic resources, and community housing activities whose costs are principally funded through Community Preservation Act revenues.
- The Senior Center Construction Fund reports activities related to the construction of a new Senior Center facility whose costs are principally funded through long-term debt.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- Water Enterprise Fund

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

D. Cash and Short-Term Investments

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

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

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

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

Investments for the Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at fair value.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2010 tax levy reflected an excess capacity of \$ 13,727.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 100,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Infrastructure	40 - 50
Vehicles	5 - 15
Office equipment	5 - 10
Computer equipment	5 - 10

H. Compensated Absences

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

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and

accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 49,236,340	\$ 49,819,329
Other financing sources/uses (GAAP basis)	<u>1,033,022</u>	<u>-</u>
Subtotal (GAAP Basis)	50,269,362	49,819,329
Adjust tax revenue to accrual basis	83,917	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,628,054)
Add end of year appropriation carryforwards to expenditures	-	1,924,778
To reverse the effect of non- budgeted State contributions for police, fire, and teachers retirement	(5,005,684)	(5,005,684)
To record use of free cash	1,476,576	-
To record use of overlay surplus	126,324	-
Other timing differences	<u>-</u>	<u>142,494</u>
Budgetary basis	<u>\$ 46,950,495</u>	<u>\$ 45,252,863</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2010:

Local education fund	\$ (15,856)
FY10 #130 Title IIA	(9,353)
FY10 #240 SPED Entitlement	(4,714)
FY10 #305 Title I	(14,305)
FY10 #331 Title IV Drug Free	(1,877)
FY10 #760 ARRA IDEA	(13,640)
FY09 police state vests	(575)
FY10 #632 academic support	(5,253)
Center School student activities	(8,311)
Center School PTA grants	(135)
SPED revolving	(42,153)
Center Library revolving	(5,563)
Gift/bandstand concerts fund	(3,682)
King St. construction	(1,044,982)
Senior center construction	(370,722)
School building needs committee	(1,825)

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2010, \$ 4,107 of the Town's bank balance of \$ 19,359,351 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts

General Law, Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of year end for each investment of the Town (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u> <u>Aaa</u>
Certificates of deposits	9,286	N/A	-	9,286
Mutual funds	<u>338</u>	N/A	<u>338</u>	<u>-</u>
Total investments	<u>\$ 9,624</u>		<u>\$ 338</u>	<u>\$ 9,286</u>

B. Custodial Credit Risk

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

Of the Town's investments of \$ 9,623,534, \$ 337,672 is exposed to custodial credit risk because the related securities are uninsured, unregistered, and held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC, excess SIPC, and by maintaining investments in the Town's name.

C. Concentration of Credit Risk

The Town does not have any investments in one issuer greater than 5% of total investments.

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>N/A</u>
Debt Related Securities:			
Certificates of deposit	\$ 9,286	\$ 9,286	-
Mutual funds	338	-	338
Total	<u>\$ 9,624</u>	<u>\$ 9,286</u>	<u>338</u>

E. Foreign Currency Risk

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

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2010 consist of the following (in thousands):

Real Estate		
2010	\$ 581	
2009	82	
2008	4	
2007	<u>3</u>	
		670
Personal Property		
2010	16	
2009	2	
2008	<u>2</u>	
		20
Tax Liens		223
Deferred Taxes		<u>150</u>
Total		<u>\$ 1,063</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 113	\$ -
Excises	59	-
Utilities	-	102
Other	290	-

7. Intergovernmental Receivables

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

8. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 39,703	\$ 3,361	\$ -	\$ 43,064
Machinery, equipment, and furnishings	2,827	124	-	2,951
Vehicles	5,570	-	-	5,570
Infrastructure	21,035	-	-	21,035
Total capital assets, being depreciated	69,135	3,485	-	72,620
Less accumulated depreciation for:				
Buildings and improvements	(19,028)	(945)	-	(19,973)
Machinery, equipment, and furnishings	(1,288)	(137)	-	(1,425)
Vehicles	(5,106)	(88)	-	(5,194)
Infrastructure	(13,696)	(402)	-	(14,098)
Total accumulated depreciation	(39,118)	(1,572)	-	(40,690)
Total capital assets, being depreciated, net	30,017	1,913	-	31,930
Capital assets, not being depreciated:				
Land	9,041	-	-	9,041
Construction in progress	2,767	14,564	-	17,331
Total capital assets, not being depreciated	11,808	14,564	-	26,372
Governmental activities capital assets, net	\$ 41,825	\$ 16,477	\$ -	\$ 58,302

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

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 6,415	\$ -	\$ -	\$ 6,415
Infrastructure	11,315	-	-	11,315
Total capital assets, being depreciated	17,730	-	-	17,730
Less accumulated depreciation for:				
Buildings and improvements	(1,141)	(146)	-	(1,287)
Other	(6,390)	(228)	-	(6,618)
Total accumulated depreciation	(7,531)	(374)	-	(7,905)
Total capital assets, being depreciated, net	10,199	(374)	-	9,825
Capital assets, not being depreciated:				
Land	977	-	-	977
Total capital assets, not being depreciated	977	-	-	977
Business-type activities capital assets, net	<u>\$ 11,176</u>	<u>\$ (374)</u>	<u>\$ -</u>	<u>\$ 10,802</u>

Governmental Activities:

General government	\$ 14
Public safety	292
Education	560
Public works	520
Health and human services	1
Culture and recreation	185
Total depreciation expense - governmental activities	<u>\$ 1,572</u>

Business-Type Activities:

Water	\$ 374
Total depreciation expense - business-type activities	<u>\$ 374</u>

9. Warrants and Accounts Payable

Warrants payable represent 2010 expenditures paid by July 15, 2010.
Accounts payable represent additional 2010 expenditures paid after July 15, 2010.

10. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund *deferred revenues* account is equal to the total of all June 30, 2010 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

11. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2010:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>6/30/10</u>
Outdoor recreational facilities	1.25%	03/04/10	09/15/10	\$ 1,500,000
Senior center construction	1.25%	03/04/10	09/15/10	940,000
Alternative energy	1.25%	03/04/10	09/15/10	300,000
Total				<u>\$ 2,740,000</u>

The following summarizes activity in notes payable during fiscal year 2010:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Anticipation notes	\$ -	\$ 2,740,000	\$ -	\$ 2,740,000
Total	<u>\$ -</u>	<u>\$ 2,740,000</u>	<u>\$ -</u>	<u>\$ 2,740,000</u>

12. Long-Term Debt

A. General Obligation Bonds

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

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/10
<u>Governmental Activities:</u>			
General purpose refunding	05/15/17	2.00%	\$ 75,500
Police station construction refunding	05/15/17	2.00%	1,181,000
General purpose refunding	05/15/18	2.00%	283,100
School reconstruction	06/15/11	4.00% - 5.00%	695,000
School reconstruction refunding	05/15/21	4.50%	9,402,100
Library reconstruction	06/15/11	4.00% - 5.00%	125,000
Library reconstruction refunding	05/15/21	4.50%	1,160,000
General purpose	06/15/12	3.00% - 3.85%	130,000
General purpose	06/15/19	3.25% - 4.50%	110,000
General purpose	08/15/16	4.00%	760,000
General purpose	05/15/27	3.25% - 4.00%	3,090,000
General purpose	05/15/29	3.00%	19,305,000
Landfill closure refunding	05/15/18	2.00%	567,000
Septic betterment	08/01/18	0.00%	97,828
Total Governmental Activities:			<u>\$ 36,981,528</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/10
<u>Business-Type Activities:</u>			
Stormwater management	08/01/22	3.00%	\$ 132,377
Well and mains refunding	05/15/15	2.00%	101,300
Plant design and mains	06/15/12	3% - 3.875%	220,000
Plant construction and mains	06/15/24	3.25% - 4.8%	3,910,000
Water building and mains	08/15/16	4.00%	940,000
Plant and mains	05/15/27	3.25% - 4.00%	275,000
Total Business-Type Activities:			<u>\$ 5,578,677</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,549,572	\$ 1,397,313	\$ 3,946,885
2012	2,605,872	1,229,826	3,835,698
2013	2,380,872	1,159,924	3,540,796
2014	2,390,872	1,099,586	3,490,458
2015	2,435,868	1,038,840	3,474,708
2016-2020	11,803,472	3,894,158	15,697,630
2021-2025	7,400,000	1,938,650	9,338,650
2026-2030	<u>5,415,000</u>	<u>574,658</u>	<u>5,989,658</u>
Total	<u>\$ 36,981,528</u>	<u>\$ 12,332,955</u>	<u>\$ 49,314,483</u>

The following governmental funds have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2010:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 575,154	\$ 227,373	\$ 802,527
2012	564,123	204,260	768,383
2013	484,400	181,996	666,396
2014	485,000	163,554	648,554
2015	480,000	145,082	625,082
2016-2020	1,780,000	477,206	2,257,206
2021-2025	1,190,000	140,034	1,330,034
2026-2030	<u>20,000</u>	<u>1,200</u>	<u>21,200</u>
Total	<u>\$ 5,578,677</u>	<u>\$ 1,540,705</u>	<u>\$ 7,119,382</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2010, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/09</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/10</u>	Less Current <u>Portion</u>	Equals Long-Term Portion <u>6/30/10</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 39,349	\$ -	\$ (2,368)	\$ 36,981	\$ (2,549)	\$ 34,432
Other:						
Accrued employee benefits	2,813	420	-	3,233	(162)	3,071
Other post-employment benefits	2,643	2,643	-	5,286	-	5,286
Bond premium	<u>499</u>	<u>-</u>	<u>(58)</u>	<u>441</u>	<u>(38)</u>	<u>403</u>
Totals	<u>\$ 45,304</u>	<u>\$ 3,063</u>	<u>\$ (2,426)</u>	<u>\$ 45,941</u>	<u>\$ (2,749)</u>	<u>\$ 43,192</u>

	Total Balance <u>7/1/09</u>	Additions	Reductions	Total Balance <u>6/30/10</u>	Less Current Portion <u>6/30/10</u>	Long-Term Portion <u>6/30/10</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 6,151	\$ -	\$ (572)	\$ 5,579	\$ (575)	\$ 5,004
Other:						
Accrued employee benefits	92	68	-	160	(8)	152
Other post-employment benefits	<u>139</u>	<u>139</u>	<u>-</u>	<u>278</u>	<u>-</u>	<u>278</u>
Totals	<u>\$ 6,382</u>	<u>\$ 207</u>	<u>\$ (572)</u>	<u>\$ 6,017</u>	<u>\$ (583)</u>	<u>\$ 5,434</u>

D. Advance and Current Refundings

Current Year

On March 4, 2010, the Town issued general obligation bonds in the amount of \$ 12,770,000 with various interest rates ranging from 2.00% to 4.00% to advance refund \$ 10,340,000 and current refund \$2,250,000 bonds interest rates ranging from 4.70% to 4.90%. The bonds mature on May 15 and are callable on May 15, 2010 and June 15, 2011. The general obligation bonds were issued at a weighted average interest rate (TIC) of 2.44% and, after paying issuance costs of \$ 183,582, the net proceeds were \$ 13,443,330. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are called on June 15, 2011. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the Town's financial statements.

As a result of the current and advance refunding, the Town reduced its total debt service cash flow requirements by \$ 1,255,912, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 1,077,523.

Defeased debt still outstanding at June 30, 2010 is \$ 10,340,000.

13. Restricted Net Assets

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

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original

restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

14. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2010:

Reserved for Encumbrances and Continuing Appropriation - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

Reserved for Future Debt – Represents the portion of bond premiums attributable to the issuance of excluded debt. This reserve is to be used for future debt payments on the related debt.

15. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the Town is involved. The Town’s management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

16. Post-Employment Health Care and Life Insurance Benefits

Other Post-Employment Benefits

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2008, the actuarial valuation date, approximately 178 retirees and 560 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, dental, vision, hearing, and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 50% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2010 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2010, the amount actually contributed to the

plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2008.

Annual Required Contribution (ARC)	\$ 3,755,524
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	3,755,524
Contributions made	(973,931)
Increase in net OPEB obligation	2,781,593
Net OPEB obligation - beginning of year	2,781,593
Net OPEB obligation - end of year	\$ 5,563,186

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 3,755,524	26%	\$ 5,563,186
2010	\$ 3,755,524	26%	\$ 2,781,593

The Town's net OPEB obligation as of June 30, 2010 is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2008, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 33,604,043
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 33,604,043
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 24,890,554
UAAL as a percentage of covered payroll	135%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements,

presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

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

In the July 1, 2008 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 9% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

17. Pension Plan

The Town follows the provisions of GASB Statement No. 27, (as amended by GASB 50) *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The System issues a publicly available financial report which can be obtained through the Plymouth County Retirement System at 10 Cordage Park Circle, Suite 234, Plymouth, MA 02360.

A. Plan Description

The Town contributes to the Plymouth County Retirement System (the System), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability, and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and the State Legislature has the authority to grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the Plymouth County Retirement System at 10 Cordage Park Circle, Suite 234, Plymouth, MA 02360.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2010, 2009, and 2008 were \$ 1,812,398, \$ 1,790,177 and \$ 1,672,641, respectively, which were equal to its annual required contributions for each of these years.

C. Massachusetts Teacher Retirement System (MTRS) - Plan Description

As required by State Statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The MTRS was established under Chapter 15, Section 16 of the Massachusetts General Laws, however, Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The Town is not required to contribute.

D. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

In fiscal year 2010, the Commonwealth of Massachusetts contributed \$ 5,005,684 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

18. Risk Management

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

19. Beginning Fund Balance Reclassification and Restatement

The beginning (July 1, 2009) fund balances of the Town have been restated as follows:

Government-Wide Financial Statements:

	Governmental Activities	Business-Type Activities Enterprise Funds			Total
		Water Fund	Ambulance	Food Services	
As previously reported	\$ 31,060,056	\$ 7,284,060	\$ 916,771	\$ 11,318	\$ 8,212,149
To reclass ambulance to governmental activities	916,771	-	(916,771)	-	(916,771)
To reclass food services to governmental activities	11,318	-	-	(11,318)	(11,318)
To remove sickleave buyback from general fund	165,073	-	-	-	-
To include permanent funds in governmental activities	576,540	-	-	-	-
To record MSBA receivables	33,568,751	-	-	-	-
To record Chapter 90 receivable	1,362,140	-	-	-	-
To remove effects of allowance for abatements	303,979	-	-	-	-
To record other post-employment benefits previously not recorded	(2,642,513)	(139,080)	-	-	(139,080)
As restated	<u>\$ 65,322,115</u>	<u>\$ 7,144,980</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,144,980</u>

Fund Basis Financial Statements:

	Governmental Funds					Fiduciary Funds	
	General Fund	HS CPF	CPA	Senior Center	Other	Total	Private Purpose
As previously reported	\$ 7,603,740	\$ 14,517,075	3,341,828	\$ 2,594,469	\$ 1,895,140	\$ 29,952,252	\$ 640,160
To record ambulance at the fund basis	-	-	-	-	759,519	759,519	-
To record school lunch at the fund basis	-	-	-	-	28,377	28,377	-
To adjust the beginning fund balance to actual	-	-	-	85,045	(85,045)	-	-
To remove bond premiums from fund basis	499,007	-	-	-	-	499,007	-
To remove sickleave buyback from general fund	165,073	-	-	-	-	165,073	-
To reclass permanent funds	-	-	-	-	576,540	576,540	(576,540)
As restated	\$ 8,267,820	\$ 14,517,075	3,341,828	\$ 2,679,514	\$ 3,174,531	\$ 31,980,768	\$ 63,620

TOWN OF HANOVER, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/08	\$ -	\$ 33,604,043	\$ 33,604,043	0.0%	\$ 24,890,554	135.0%

See Independent Auditors' Report.