

TOWN OF HANOVER, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2011

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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, 2011, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town of 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis appearing on the following pages and the supplementary information appearing on page 46 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 March 8, 2012, 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
March 8, 2012

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, 2011.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent 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 \$ 69,521,844 (i.e., net assets), a change of \$ (1,244,970) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 4,975,338, a change of \$ (16,397,595) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 2,398,111, a change of \$ (1,004,075) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 39,435,479, a change of \$ (3,124,726) 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.

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 45,097	\$ 56,679	\$ 2,891	\$ 2,318	\$ 47,988	\$ 58,997
Capital assets	86,398	58,302	10,429	10,802	96,827	69,104
Total assets	<u>131,495</u>	<u>114,981</u>	<u>13,320</u>	<u>13,120</u>	<u>144,815</u>	<u>128,101</u>
Long-term liabilities outstanding	43,089	43,192	5,013	5,434	48,102	48,626
Other liabilities	25,752	7,715	1,440	993	27,192	8,708
Total liabilities	<u>68,841</u>	<u>50,907</u>	<u>6,453</u>	<u>6,427</u>	<u>75,294</u>	<u>57,334</u>
Net assets:						
Invested in capital assets, net	50,490	46,962	5,425	5,224	55,915	52,186
Restricted	4,235	5,293	-	-	4,235	5,293
Unrestricted	7,929	11,819	1,442	1,469	9,371	13,288
Total net assets	<u>\$ 62,654</u>	<u>\$ 64,074</u>	<u>\$ 6,867</u>	<u>\$ 6,693</u>	<u>\$ 69,521</u>	<u>\$ 70,767</u>

CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,375	\$ 3,612	\$ 3,367	\$ 3,078	\$ 6,742	\$ 6,690
Operating grants and contributions	13,804	12,911	-	-	13,804	12,911
Capital grants and contributions	539	100	-	-	539	100
General revenues:						
Property taxes	32,582	32,039	-	-	32,582	32,039
Excises	1,904	1,777	-	-	1,904	1,777
Penalties and interest on taxes	396	421	-	-	396	421
Grants and contributions not restricted to specific programs	2,083	2,090	1	-	2,084	2,090
Investment income	435	156	-	-	435	156
Other	367	488	-	-	367	488
Total revenues	<u>55,485</u>	<u>53,594</u>	<u>3,368</u>	<u>3,078</u>	<u>58,853</u>	<u>56,672</u>
Expenses:						
General government	1,789	2,099	-	-	1,789	2,099
Public safety	6,423	6,841	-	-	6,423	6,841
Education	33,574	32,466	-	-	33,574	32,466
Public works	2,866	3,499	-	-	2,866	3,499
Human services	422	605	-	-	422	605
Culture and recreation	1,102	1,047	-	-	1,102	1,047
Employee benefits	8,861	6,467	-	-	8,861	6,467
Interest on long-term debt	1,662	1,589	-	-	1,662	1,589
Intergovernmental	539	511	-	-	539	511
Miscellaneous	18	34	-	-	18	34
Water	-	-	2,857	3,214	2,857	3,214
Total expenses	<u>57,256</u>	<u>55,158</u>	<u>2,857</u>	<u>3,214</u>	<u>60,113</u>	<u>58,372</u>
Change in net assets before transfers	(1,771)	(1,564)	511	(136)	(1,260)	(1,700)
Transfers in (out)	337	316	(337)	(316)	-	-
Permanent fund contributions	14	-	-	-	14	-
Change in net assets	(1,420)	(1,248)	174	(452)	(1,246)	(1,700)
Net assets - beginning of	<u>64,074</u>	<u>65,322</u>	<u>6,693</u>	<u>7,145</u>	<u>70,767</u>	<u>72,467</u>
Net assets - end of year	<u>\$ 62,654</u>	<u>\$ 64,074</u>	<u>\$ 6,867</u>	<u>\$ 6,693</u>	<u>\$ 69,521</u>	<u>\$ 70,767</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 \$ 69,521,844, a change of \$ (1,244,970) from the prior year.

The largest portion of net assets \$ 55,915,361 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 \$ 4,235,397 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 9,371,086 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 \$ (1,419,563). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (345,662)
High school capital project fund - accrual basis	59,999
Community preservation fund - accrual basis	531,319
Nonmajor funds - accrual basis	612,639
Principal debt service in excess of depreciation expense	836,173
Change in accrued other post-employment benefits	(2,861,395)
Other	<u>(252,636)</u>
Total	<u>\$ (1,419,563)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 174,593. Key elements of this change are as follows:

Water operations	\$ <u>174,593</u>
Total	<u>\$ 174,593</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 4,975,338, a change of \$ (16,397,595) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ (345,662)
High school capital project expenditures	(26,110,307)
MSBA proceeds	12,124,055
Community preservation fund expenditures over revenue	(1,476,788)
Nonmajor funds expenditures over revenue	<u>(588,893)</u>
Total	<u>\$ (16,397,595)</u>

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

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 2,398,111, while total fund balance was \$ 8,372,191. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ¹	\$ 2,398,111	\$ 3,402,186	\$ (1,004,075)	5%
Total fund balance	8,372,191	8,717,853	(345,662)	16%

¹In the prior year, stabilization was reflected as unassigned. It is now reflected as committed to conform to current presentation.

The total fund balance of the general fund changed by \$ (345,662) during the current fiscal year. Key factors in this change are as follows:

Revenue surplus	\$ 761,190
Appropriation turnbacks by departments	1,107,021
Property tax collections shortfall	(58,318)
Prior year encumbrances to be spent in the current year over current year encumbrances to be spent in the subsequent year	(198,962)
Use of free cash as a funding source	(1,710,066)
Change in stabilization	10,434
Other	<u>(256,961)</u>
Total	<u>\$ (345,662)</u>

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>
General stabilization	\$ <u>1,676,753</u>	\$ <u>1,666,319</u>	\$ <u>10,434</u>
Total	\$ <u><u>1,676,753</u></u>	\$ <u><u>1,666,319</u></u>	\$ <u><u>10,434</u></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 \$ 1,442,053, a change of \$ (27,129) 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 \$ 96,827,997 (net of accumulated depreciation), a change of \$ 27,723,299 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:

- Addition to the High School construction in progress of \$ 26,170,307

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 \$ 39,435,479, 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, 2011

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 13,898,606	\$ 1,826,455	\$ 15,725,061
Investments	13,820,978	-	13,820,978
Receivables, net of allowance for uncollectibles:			
Property taxes	531,968	-	531,968
Excises	108,975	-	108,975
User fees	-	1,065,444	1,065,444
Departmental and other	1,379,015	-	1,379,015
Intergovernmental	6,155,094	-	6,155,094
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	317,714	-	317,714
Intergovernmental	8,883,612	-	8,883,612
Capital Assets:			
Land and construction in progress	54,550,293	977,779	55,528,072
Other assets, net of accumulated depreciation	<u>31,848,849</u>	<u>9,451,076</u>	<u>41,299,925</u>
TOTAL ASSETS	131,495,104	13,320,754	144,815,858
LIABILITIES			
Current:			
Warrants payable	2,356,634	100,182	2,456,816
Accounts payable	29,051	-	29,051
Accrued liabilities	398,871	19,024	417,895
Tax refunds payable	259,242	-	259,242
Notes payable	18,590,000	750,000	19,340,000
Other current liabilities	1,329,263	-	1,329,263
Current portion of long-term liabilities:			
Bonds payable	2,605,872	564,123	3,169,995
Compensated absence	144,791	6,907	151,698
Bond premium	36,862	-	36,862
Noncurrent:			
Bonds payable, net of current portion	31,826,084	4,439,400	36,265,484
Compensated absence	2,751,024	131,230	2,882,254
Bond premium	366,530	-	366,530
Accrued other post-employment benefits	<u>8,146,421</u>	<u>442,503</u>	<u>8,588,924</u>
TOTAL LIABILITIES	68,840,645	6,453,369	75,294,014
NET ASSETS			
Invested in capital assets, net of related debt	50,490,029	5,425,332	55,915,361
Restricted for:			
Grants and other statutory restrictions	3,536,579	-	3,536,579
Permanent funds:			
Nonexpendable	166,960	-	166,960
Expendable	531,858	-	531,858
Unrestricted	<u>7,929,033</u>	<u>1,442,053</u>	<u>9,371,086</u>
TOTAL NET ASSETS	\$ <u>62,654,459</u>	\$ <u>6,867,385</u>	\$ <u>69,521,844</u>

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>				<u>Business-Type Activities</u>	<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>		
Governmental Activities:							
General government	\$ 1,788,776	\$ 737,898	\$ -	\$ 243,120	\$ (807,758)	\$ -	\$ (807,758)
Public safety	6,423,023	974,912	15,962	-	(5,432,149)	-	(5,432,149)
Education	33,573,927	1,391,993	13,616,168	-	(18,565,766)	-	(18,565,766)
Public works	2,866,080	173,022	38,057	296,231	(2,358,770)	-	(2,358,770)
Health and human services	422,130	68	29,756	-	(392,306)	-	(392,306)
Culture and recreation	1,102,114	97,204	103,818	-	(901,092)	-	(901,092)
Employee benefits	8,861,160	-	-	-	(8,861,160)	-	(8,861,160)
Interest	1,661,733	-	-	-	(1,661,733)	-	(1,661,733)
Intergovernmental	538,830	-	-	-	(538,830)	-	(538,830)
Miscellaneous	18,782	-	-	-	(18,782)	-	(18,782)
Total Governmental Activities	57,256,555	3,375,097	13,803,761	539,351	(39,538,346)	-	(39,538,346)
Business-Type Activities:							
Water services	2,857,070	3,366,934	-	-	-	509,864	509,864
Total Business-Type Activities	2,857,070	3,366,934	-	-	-	509,864	509,864
Total	\$ 60,113,625	\$ 6,742,031	\$ 13,803,761	\$ 539,351	(39,538,346)	509,864	(39,028,482)
General Revenues and Transfers:							
Property taxes					32,582,454	-	32,582,454
Excises					1,904,113	-	1,904,113
Penalties, interest and other taxes					396,230	-	396,230
Grants and contributions not restricted to specific programs					2,083,166	1,478	2,084,644
Investment income					434,866	-	434,866
Miscellaneous					366,826	-	366,826
Transfers, net					336,749	(336,749)	-
Permanent fund contributions					14,379	-	14,379
Total general revenues and transfers					38,118,783	(335,271)	37,783,512
Change in Net Assets					(1,419,563)	174,593	(1,244,970)
Net Assets:							
Beginning of year					64,074,022	6,692,792	70,766,814
End of year					\$ 62,654,459	\$ 6,867,385	\$ 69,521,844

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	<u>General</u>	<u>High School Capital Project Fund</u>	<u>Community Preservation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 6,292,950	\$ -	\$ 3,951,842	\$ 3,653,814	\$ 13,898,606
Investments	4,443,941	8,948,398	-	428,639	13,820,978
Receivables:					
Property taxes	973,973	-	-	-	973,973
Excises	177,381	-	-	6,461	183,842
Departmental and other	-	-	9,721	1,737,088	1,746,809
Due from other governments	-	<u>6,155,094</u>	-	-	<u>6,155,094</u>
TOTAL ASSETS	<u>\$ 11,888,245</u>	<u>\$ 15,103,492</u>	<u>\$ 3,961,563</u>	<u>\$ 5,826,002</u>	<u>\$ 36,779,302</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants payable	\$ 780,491	\$ 1,412,626	\$ 44,653	\$ 118,864	\$ 2,356,634
Accounts payable	29,051	-	-	-	29,051
Accrued liabilities	256,961	-	-	-	256,961
Deferred revenues	1,074,448	6,155,094	9,721	1,743,549	8,982,812
Deposits held in custody	-	-	-	213,403	213,403
Tax refunds payable	259,242	-	-	-	259,242
Notes payable	-	14,000,000	3,100,000	1,490,000	18,590,000
Other liabilities	<u>1,115,861</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,115,861</u>
TOTAL LIABILITIES	3,516,054	21,567,720	3,154,374	3,565,816	31,803,964
Fund Balances:					
Nonspendable	-	-	-	166,960	166,960
Restricted	603,887	-	-	3,436,499	4,040,386
Committed	2,701,035	-	807,189	-	3,508,224
Assigned	2,669,158	-	-	-	2,669,158
Unassigned	<u>2,398,111</u>	<u>(6,464,228)</u>	<u>-</u>	<u>(1,343,273)</u>	<u>(5,409,390)</u>
TOTAL FUND BALANCES	<u>8,372,191</u>	<u>(6,464,228)</u>	<u>807,189</u>	<u>2,260,186</u>	<u>4,975,338</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,888,245</u>	<u>\$ 15,103,492</u>	<u>\$ 3,961,563</u>	<u>\$ 5,826,002</u>	<u>\$ 36,779,302</u>

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, 2011

Total governmental fund balances	\$	4,975,338
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	86,399,142	
<ul style="list-style-type: none"> • Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	8,415,860	
<ul style="list-style-type: none"> • 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. 	8,883,612	
<ul style="list-style-type: none"> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	(141,909)	
<ul style="list-style-type: none"> • 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>(45,877,584)</u>	
Net assets of governmental activities	\$	<u><u>62,654,459</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, 2011

	General	High School Capital Project	Community Preservation Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 31,882,894	\$ -	\$ 731,904	\$ -	\$ 32,614,798
Excises	1,876,886	-	-	3,302	1,880,188
Penalties, interest, and other taxes	396,230	-	-	-	396,230
Charges for services	540,805	-	-	2,324,718	2,865,523
Licenses and permits	430,558	-	-	-	430,558
Fines and forfeitures	92,812	-	-	3,450	96,262
Intergovernmental	14,200,066	12,184,055	243,120	2,244,181	28,871,422
Investment income	81,869	-	11,882	81,572	175,323
Miscellaneous	343,318	-	-	23,509	366,827
Contributions	-	-	-	715,844	715,844
	<u>49,845,438</u>	<u>12,184,055</u>	<u>986,906</u>	<u>5,396,576</u>	<u>68,412,975</u>
Expenditures:					
Current:					
General government	1,565,441	-	778,118	41,250	2,384,809
Public safety	6,098,875	-	-	674,094	6,772,969
Education	29,415,688	26,170,307	-	3,599,286	59,185,281
Public works	2,658,668	-	-	410,359	3,069,027
Health and human services	368,041	-	-	462,953	830,994
Culture and recreation	570,903	-	1,458,107	337,758	2,366,768
Employee benefits	5,999,765	-	-	-	5,999,765
Miscellaneous	-	-	-	18,781	18,781
Debt service	3,983,299	-	227,469	28,870	4,239,638
Intergovernmental	538,830	-	-	-	538,830
	<u>51,199,510</u>	<u>26,170,307</u>	<u>2,463,694</u>	<u>5,573,351</u>	<u>85,406,862</u>
Excess (deficiency) of revenues over expenditures	(1,354,072)	(13,986,252)	(1,476,788)	(176,775)	(16,993,887)
Other Financing Sources (Uses):					
Proceeds of bonds	-	-	-	259,543	259,543
Transfers in	1,008,410	-	-	-	1,008,410
Transfers out	-	-	-	(671,661)	(671,661)
	<u>1,008,410</u>	<u>-</u>	<u>-</u>	<u>(412,118)</u>	<u>596,292</u>
Change in fund balance	(345,662)	(13,986,252)	(1,476,788)	(588,893)	(16,397,595)
Fund Equity, at Beginning of Year, as restated	8,717,853	7,522,024	2,283,977	2,849,079	21,372,933
Fund Equity, at End of Year	<u>\$ 8,372,191</u>	<u>\$ (6,464,228)</u>	<u>\$ 807,189</u>	<u>\$ 2,260,186</u>	<u>\$ 4,975,338</u>

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, 2011

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (16,397,595)
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: 	
Capital outlay purchases	29,810,130
Depreciation	(1,713,399)
<ul style="list-style-type: none"> 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. 	
	(12,283,692)
<ul style="list-style-type: none"> 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. 	
	(888,582)
<ul style="list-style-type: none"> 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	2,549,572
Amortization of bond premium	37,877
<ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	
	(9,543)
<ul style="list-style-type: none"> 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	337,064
Net OPEB obligation	<u>(2,861,395)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>(1,419,563)</u></u>

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, 2011

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues and other sources:				
Property taxes	\$ 31,941,212	\$ 31,941,212	\$ 31,941,212	\$ -
Excises	1,576,000	1,576,000	1,876,886	300,886
Penalties, interest, and other taxes	190,000	190,000	396,230	206,230
Charges for services	450,000	450,000	540,805	90,805
Licenses and permits	300,000	300,000	430,558	130,558
Fines and forfeitures	50,000	50,000	92,812	42,812
Intergovernmental	8,785,067	8,785,067	8,909,042	123,975
Investment income	50,000	50,000	71,435	21,435
Other revenues	498,829	498,829	343,318	(155,511)
Other financing sources:				
Transfers in	1,008,410	1,008,410	1,008,410	-
Use of fund balance	1,710,066	1,710,066	1,710,066	-
Total Revenues	46,559,584	46,559,584	47,320,774	761,190
Expenditures and other uses:				
Current:				
General government	1,658,007	1,658,007	1,562,441	95,566
Public safety	6,275,075	6,275,075	6,071,939	203,136
Education	24,037,089	24,037,089	24,013,510	23,579
Public works	2,742,820	2,742,820	2,614,885	127,935
Health and human services	378,210	378,210	366,959	11,251
Culture and recreation	576,984	576,984	569,884	7,100
Employee benefits	6,529,914	6,529,914	5,987,777	542,137
Debt service	3,838,918	3,838,918	3,726,338	112,580
Intergovernmental	522,567	522,567	538,830	(16,263)
Total Expenditures	46,559,584	46,559,584	45,452,563	1,107,021
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,868,211	\$ 1,868,211

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-Type Activities <u>Enterprise Funds</u>
	<u>Water Fund</u>
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ 1,826,455
User fees, net of allowance for uncollectibles	<u>1,065,444</u>
Total current assets	2,891,899
Noncurrent:	
Capital Assets:	
Land and construction in progress	977,779
Other assets, net of accumulated depreciation	<u>9,451,076</u>
Total noncurrent assets	<u>10,428,855</u>
TOTAL ASSETS	13,320,754
<u>LIABILITIES</u>	
Current:	
Warrants payable	100,182
Accrued liabilities	19,024
Notes payable	750,000
Current portion of long-term liabilities:	
Bonds payable	564,123
Compensated absence	<u>6,907</u>
Total current liabilities	1,440,236
Noncurrent:	
Bonds payable, net of current portion	4,439,400
Compensated absence, net of current portion	131,230
Net OPEB obligation	<u>442,503</u>
Total noncurrent liabilities	<u>5,013,133</u>
TOTAL LIABILITIES	6,453,369
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	5,425,332
Unrestricted	<u>1,442,053</u>
TOTAL NET ASSETS	\$ <u>6,867,385</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, 2011

	Business-Type Activities Enterprise Funds
	Water Fund
Operating Revenues:	
Charges for services	\$ 3,340,634
Other	<u>10,096</u>
Total Operating Revenues	3,350,730
Operating Expenses:	
Operating expenses	2,162,005
Depreciation	373,432
Employee benefits	<u>142,713</u>
Total Operating Expenses	<u>2,678,150</u>
Operating Income (Loss)	672,580
Nonoperating Revenues (Expenses):	
Intergovernmental revenue	1,478
Investment income	16,204
Interest expense	<u>(178,920)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(161,238)</u>
Income (Loss) Before Transfers	511,342
Transfers:	
Transfers out	<u>(336,749)</u>
Change in Net Assets	174,593
Net Assets at Beginning of Year	<u>6,692,792</u>
Net Assets at End of Year	<u><u>\$ 6,867,385</u></u>

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities <u>Enterprise Funds</u>
	<u>Water Fund</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 3,429,744
Payments to vendors and employees	<u>(2,153,484)</u>
Net Cash Provided By Operating Activities	1,276,260
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfers out	<u>(336,749)</u>
Net Cash (Used For) Noncapital Financing Activities	(336,749)
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Proceeds from issuance of bonds and notes	450,000
Principal payments on bonds and notes	(575,154)
Interest expense	(178,920)
Intergovernmental subsidy	<u>1,478</u>
Net Cash (Used For) Capital and Related Financing Activities	(302,596)
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>16,204</u>
Net Cash Provided By Investing Activities	<u>16,204</u>
Net Change in Cash and Short-Term Investments	653,119
Cash and Short-Term Investments, Beginning of Year	<u>1,173,336</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 1,826,455</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income	\$ 672,580
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	79,099
Warrants and accounts payable	60,473
Accrued liabilities	(51,953)
Other liabilities	(85)
Compensated absences	(21,629)
Accrued other post-employment	<u>164,343</u>
Net Cash Provided By Operating Activities	<u><u>\$ 1,276,260</u></u>

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>		
Cash and short-term investments	\$ <u>53,893</u>	\$ <u>668,070</u>
Total Assets	53,893	668,070
 <u>LIABILITIES AND NET ASSETS</u>		
Warrants payable	-	4,967
Escrow deposits	<u>-</u>	<u>663,103</u>
Total Liabilities	<u>-</u>	<u>668,070</u>
 <u>NET ASSETS</u>		
Net assets	\$ <u><u>53,893</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Private Purpose Trust Funds</u>
Additions:	
Investment Income (Loss):	
Increase (decrease) in fair value of investments	\$ <u>28</u>
Net investment income (loss)	<u>28</u>
Total additions	28
Deductions:	
Other	<u>4,233</u>
Total deductions	<u>4,233</u>
Net increase (decrease)	(4,205)
Net assets:	
Beginning of year	<u>58,098</u>
End of year	<u>\$ <u>53,893</u></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 2011, it was determined that no entities met the required GASB 39 criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of 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.

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 market 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 2011 tax levy reflected an excess capacity of \$ 29,490.

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

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

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

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

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

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

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

K. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

At the annual town meeting, the Advisory Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Advisory Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 49,845,438	\$ 51,199,510
Other financing sources/uses (GAAP basis)	<u>1,008,410</u>	<u>-</u>
Subtotal (GAAP Basis)	50,853,848	51,199,510
Adjust tax revenue to accrual basis	58,318	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,498,012)
Add end-of-year appropriation carryforwards from expenditures	-	1,299,050
To record use of free cash	1,710,066	-
To remove unbudgeted stabilization fund	(10,434)	-
	-	-
To reverse the effect of non- budgeted State contributions for teachers retirement	(5,291,024)	(5,291,024)
Other timing issues	<u>-</u>	<u>(256,961)</u>
Budgetary basis	<u>\$ 47,320,774</u>	<u>\$ 45,452,563</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2011:

FY11 Traffic enforcement	\$ (959)
ECC FY11 911 Grant training	(3,359)
Extended OPP - Cedar AS Enrichment	(1,045)
Fire Engine ATM A21/10	(449,945)
Financial software ATM A22/10	(15,075)
Senior center construction ATM A34/08	(872,890)
High school capital project	<u>(6,464,228)</u>
	<u>\$ (7,807,501)</u>

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, 2011, \$ 5,604 of the Town's bank balance of \$ 17,382,731 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. 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>	<u>Aa</u>
Certificates of deposits	\$ 11,693		\$ -	\$ 11,693	\$ -
Corporate bonds	103		-	-	103
Mutual funds	1,555	N/A	1,555	-	-
Federal agency securities	<u>470</u>		<u>-</u>	<u>470</u>	<u>-</u>
Total investments	<u>\$ 13,821</u>		<u>\$ 1,555</u>	<u>\$ 12,163</u>	<u>\$ 103</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.

The Town's investments are exposed to custodial credit risk because the related securities are uninsured, unregistered, and/or 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 an investment 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.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
Certificates of deposit	\$ 11,693	\$ 11,064	\$ 629	\$ -
Corporate bonds	103	-	103	-
Federal agency securities	470	-	420	50
Total	<u>\$ 12,266</u>	<u>\$ 11,064</u>	<u>\$ 1,152</u>	<u>\$ 50</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, 2011 consist of the following (in thousands):

Real Estate		
2011	\$ 328	
2010	71	
2009	43	
2008	3	
Prior	<u>3</u>	
		448
Personal Property		
2011	13	
2010	13	
2009	1	
2008	<u>1</u>	
		28
Tax Liens		353
Deferred Taxes		<u>145</u>
Total		<u>\$ 974</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	\$ 124	\$ -
Excises	\$ 75	\$ -
Utilities	\$ -	\$ 73
Other	\$ 368	\$ -

7. Intergovernmental Receivables

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

8. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 43,064	\$ 421	\$ -	\$ 43,485
Machinery, equipment, and furnishings	2,951	146	-	3,097
Vehicles	5,570	449	-	6,019
Infrastructure	<u>21,035</u>	<u>615</u>	<u>-</u>	<u>21,650</u>
Total capital assets, being depreciated	72,620	1,631	-	74,251
Less accumulated depreciation for:				
Buildings and improvements	(19,973)	(983)	-	(20,956)
Machinery, equipment, and furnishings	(1,425)	(153)	-	(1,578)
Vehicles	(5,194)	(176)	-	(5,370)
Infrastructure	<u>(14,098)</u>	<u>(401)</u>	<u>-</u>	<u>(14,499)</u>
Total accumulated depreciation	<u>(40,690)</u>	<u>(1,713)</u>	<u>-</u>	<u>(42,403)</u>
Total capital assets, being depreciated, net	31,930	(82)	-	31,848
Capital assets, not being depreciated:				
Land	9,041	550	-	9,591
Construction in progress	<u>17,331</u>	<u>27,628</u>	<u>-</u>	<u>44,959</u>
Total capital assets, not being depreciated	<u>26,372</u>	<u>28,178</u>	<u>-</u>	<u>54,550</u>
Governmental activities capital assets, net	<u>\$ 58,302</u>	<u>\$ 28,096</u>	<u>\$ -</u>	<u>\$ 86,398</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 6,415	\$ -	\$ -	\$ 6,415
Infrastructure	<u>11,315</u>	<u>-</u>	<u>-</u>	<u>11,315</u>
Total capital assets, being depreciated	17,730	-	-	17,730
Less accumulated depreciation for:				
Buildings and improvements	(1,287)	(145)	-	(1,432)
Other	<u>(6,618)</u>	<u>(228)</u>	<u>-</u>	<u>(6,846)</u>
Total accumulated depreciation	<u>(7,905)</u>	<u>(373)</u>	<u>-</u>	<u>(8,278)</u>
Total capital assets, being depreciated, net	9,825	(373)	-	9,452
Capital assets, not being depreciated:				
Land	<u>977</u>	<u>-</u>	<u>-</u>	<u>977</u>
Total capital assets, not being depreciated	<u>977</u>	<u>-</u>	<u>-</u>	<u>977</u>
Business-type activities capital assets, net	<u>\$ 10,802</u>	<u>\$ (373)</u>	<u>\$ -</u>	<u>\$ 10,429</u>

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

Governmental Activities:	
General government	\$ 15
Public safety	311
Education	631
Public works	548
Health and human services	13
Culture and recreation	<u>195</u>
Total depreciation expense - governmental activities	<u>\$ 1,713</u>
Business-Type Activities:	
Water	<u>\$ 373</u>
Total depreciation expense - business-type activities	<u>\$ 373</u>

9. Warrants and Accounts Payable

Warrants payable represent 2011 expenditures paid by July 15, 2011.
Accounts payable represent 2011 expenditures paid after July 15, 2011.

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, 2011 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

11. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

12. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2011:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/11</u>
Bond anticipation	1.75%	09/15/10	09/15/11	\$ 1,500,000
Bond anticipation	1.75%	09/15/10	09/15/11	940,000
Bond anticipation	1.75%	09/15/10	09/15/11	14,000,000
Bond anticipation	1.75%	09/15/10	09/15/11	450,000
Bond anticipation	1.75%	09/15/10	09/15/11	100,000
Bond anticipation	1.75%	09/15/10	09/15/11	1,600,000
Bond anticipation	1.75%	09/15/10	09/15/11	<u>750,000</u>
Total				<u>\$ 19,340,000</u>

The following summarizes activity in notes payable during fiscal year 2011:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
	\$ <u>2,740,000</u>	\$ <u>16,600,000</u>	\$ <u>-</u>	\$ <u>19,340,000</u>
Total	\$ <u>2,740,000</u>	\$ <u>16,600,000</u>	\$ <u>-</u>	\$ <u>19,340,000</u>

13. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/11</u>
General purpose refunding	5/15/17	2.00%	\$ 59,900
General purpose refunding	5/15/18	2.00%	215,000
General purpose	6/15/12	3.00-3.85%	40,000
Police station construction refunding	5/15/17	2.00%	1,015,500
General purpose	6/15/19	3.25-4.50%	90,000
General purpose	8/15/16	4.00%	600,000
General purpose	5/15/27	3.25-4.00%	2,705,000
General purpose	5/15/29	3.00%	18,585,000
School reconstruction refunding	5/15/21	4.50%	9,374,600
Library reconstruction refunding	5/15/21	4.50%	1,155,000
Septic betterment	8/1/18	0.00%	86,956
Landfill closure refunding	5/15/18	2.00%	<u>505,000</u>
Total Governmental Activities:			<u>\$ 34,431,956</u>
<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/11</u>
Stormwater management	08/01/22	3.00%	\$ 123,523
Well and mains refunding	05/15/15	2.00%	75,000
Plant design and mains	06/15/12	3.00-3.88%	110,000
Plant construction and mains	06/15/24	3.25-4.80%	3,625,000
Water building and mains	08/15/16	4.00%	825,000
Plant and mains	05/15/27	3.25-4.00%	<u>245,000</u>
Total Business-Type Activities:			<u>\$ 5,003,523</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2011 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,465,868	977,224	3,443,092
2017 - 2021	11,647,604	3,429,764	15,077,368
2022 - 2026	6,430,000	1,653,950	8,083,950
2027 - 2031	4,075,000	346,628	4,421,628
Total	\$ <u>34,431,956</u>	\$ <u>10,935,742</u>	\$ <u>45,367,698</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 564,123	\$ 205,645	\$ 769,768
2013	484,400	183,347	667,747
2014	485,000	164,677	649,677
2015	480,000	146,051	626,051
2016	435,000	127,684	562,684
2017 - 2021	1,645,000	407,035	2,052,035
2022 - 2026	900,000	86,240	986,240
2027 - 2031	10,000	400	10,400
Total	\$ <u>5,003,523</u>	\$ <u>1,321,079</u>	\$ <u>6,324,602</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2011, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/10</u>	Additions	Reductions	Total Balance <u>6/30/11</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/11</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 36,981	\$ -	\$ (2,549)	\$ 34,432	\$ (2,606)	\$ 31,826
Other:						
Compensated absences	3,233	-	(337)	2,896	(145)	2,751
Bond premium	441	-	(38)	403	(37)	366
Accrued other post-employment benefits	5,286	2,860	-	8,146	-	8,146
Totals	\$ <u>45,941</u>	\$ <u>2,860</u>	\$ <u>(2,924)</u>	\$ <u>45,877</u>	\$ <u>(2,788)</u>	\$ <u>43,089</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 5,579	\$ -	\$ (576)	\$ 5,003	\$ (564)	\$ 4,439
Other:						
Compensated absences	160	-	(22)	138	(7)	131
Accrued other post-employment benefits	278	165	-	443	-	443
Totals	\$ <u>6,017</u>	\$ <u>165</u>	\$ <u>(598)</u>	\$ <u>5,584</u>	\$ <u>(571)</u>	\$ <u>5,013</u>

14. Restricted Net Assets

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

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

15. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

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

GAAP basis balance	\$ 2,398,111
Tax refund estimate	<u>259,242</u>
Statutory (UMAS) Balance	<u>\$ 2,657,353</u>

16. Subsequent Events

Debt

Subsequent to June 30, 2011, the Town has incurred the following debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General Obligation Bond	\$ 15,635,000	2.87%	09/07/11	05/15/32
Bond anticipation note	\$ 6,000,000	1.00%	09/15/11	09/15/12

17. **Commitments and Contingencies**

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

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

18. **Post-Employment Healthcare 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 Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare 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 January 1, 2011, the actuarial valuation date, approximately 322 retirees and 515 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse, 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 2011 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2011, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2011.

Annual Required Contribution (ARC)	\$ 4,209,078
Interest on net OPEB obligation	234,198
Adjustment to ARC	(223,476)
Other adjustments	<u>(52,650)</u>
Annual OPEB cost	4,167,150
Contributions made	<u>(1,141,412)</u>
Increase in net OPEB obligation	3,025,738
Net OPEB obligation - beginning of year	<u>5,563,186</u>
Net OPEB obligation - end of year	<u><u>\$ 8,588,924</u></u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 4,167,150	27%	\$ 8,588,924
2010	\$ 3,755,524	26%	\$ 5,563,186

The Town's net OPEB obligation as of June 30, 2011 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 January 1, 2011, the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 47,798
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>47,798</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	\$ <u>28,675</u>
UAAL as a percentage of covered payroll	<u>167%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to 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 January 1, 2011 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 4.25% investment rate of return and an initial annual healthcare cost trend rate of between 5% and 7.02%, after the initial year trends start at 8% or 9% and decrease to 5% or 6% over 6 to 8 years (depending on health insurance plan). 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 3.25%.

19. 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 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, 2011, 2010, and 2009 were \$ 2,055,177, \$ 1,812,398, and \$ 1,790,177, 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 2011, the Commonwealth of Massachusetts contributed \$ 5,291,024 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. 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.

21. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2011, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/11 (as previously reported)	Reclassification	Fund Equity 6/30/11 (as restated)
Nonmajor funds	\$ 3,219,801	\$ (370,722)	\$ 2,849,079
Senior Center capital project fund	<u>(370,722)</u>	<u>370,722</u>	<u>-</u>
Total	<u>\$ 2,849,079</u>	<u>\$ -</u>	<u>\$ 2,849,079</u>

The reclassification was due to reclassifying Capital Reserve Funds from the Major and Non Major Funds into the General Fund per GASB 54. Accordingly, the following table is provided to reflect a bridge of the ending balances of the current year under GASB 54:

	Non Spendable	Restricted	Committed	Assigned	Unassigned	Total
General Fund						
Reserve for:						
Encumbrance	\$ -	\$ -	\$ -	\$ 274,771	\$ -	\$ 274,771
Continuing appropriations	-	-	1,024,282	-	-	1,024,282
Expenditures	-	-	-	2,394,387	-	2,394,387
Debt service	-	603,887	-	-	-	603,887
Stabilization	-	-	1,676,753	-	-	1,676,753
Undesignated	-	-	-	-	2,398,111	2,398,111
subtotal	<u>-</u>	<u>603,887</u>	<u>2,701,035</u>	<u>2,669,158</u>	<u>2,398,111</u>	<u>8,372,191</u>
Major						
High school capital project fund	-	-	-	-	(6,464,228)	(6,464,228)
Community preservation fund	-	-	807,189	-	-	807,189
subtotal	<u>-</u>	<u>-</u>	<u>807,189</u>	<u>-</u>	<u>(6,464,228)</u>	<u>(5,657,039)</u>
Non Major						
Special Revenue	-	2,734,753	-	-	(5,363)	2,729,390
Capital Projects	-	169,888	-	-	(1,337,910)	(1,168,022)
Permanent Funds	166,960	531,858	-	-	-	698,818
subtotal	<u>166,960</u>	<u>3,436,499</u>	<u>-</u>	<u>-</u>	<u>(1,343,273)</u>	<u>2,260,186</u>
Grand Total	<u>\$ 166,960</u>	<u>\$ 4,040,386</u>	<u>\$ 3,508,224</u>	<u>\$ 2,669,158</u>	<u>\$ (5,409,390)</u>	<u>\$ 4,975,338</u>

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

June 30, 2011

(Unaudited)

(Amounts Expressed in thousands)

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	\$ 33,604	0.0%	\$ 24,891	135.0%
1/1/2011	\$ -	\$ 47,798	\$ 47,798	0.0%	\$ 28,675	166.7%

See Independent Auditors' Report.