

**TOWN OF HANOVER, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2012**

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MELANSON HEATH & COMPANY, PC  
CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

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, 2012, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 17, 2013, 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.

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

*Melanson, Heath + Company P.C.*

June 17, 2013

## **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, 2012.

### **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 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 \$65,922,250 (i.e., net assets), a change of \$159,661 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$12,473,002, a change of \$7,497,664 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,692,738, a change of \$1,294,627 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$51,900,484, a change of \$12,465,005 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.

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 35,431	\$ 41,338	\$ 2,923	\$ 2,891	\$ 38,354	\$ 44,229
Capital assets	<u>96,308</u>	<u>86,398</u>	<u>10,797</u>	<u>10,429</u>	<u>107,105</u>	<u>96,827</u>
Total assets	131,739	127,736	13,720	13,320	145,459	141,056
Long-term liabilities outstanding	58,645	43,089	5,386	5,013	64,031	48,102
Other liabilities	<u>14,793</u>	<u>25,752</u>	<u>713</u>	<u>1,440</u>	<u>15,506</u>	<u>27,192</u>
Total liabilities	73,438	68,841	6,099	6,453	79,537	75,294
Net assets:						
Invested in capital assets, net	45,672	50,490	5,608	5,425	51,280	55,915
Restricted	7,209	4,235	-	-	7,209	4,235
Unrestricted	<u>5,420</u>	<u>4,170</u>	<u>2,013</u>	<u>1,442</u>	<u>7,433</u>	<u>5,612</u>
Total net assets	<u>\$ 58,301</u>	<u>\$ 58,895</u>	<u>\$ 7,621</u>	<u>\$ 6,867</u>	<u>\$ 65,922</u>	<u>\$ 65,762</u>

CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,222	\$ 3,375	\$ 3,358	\$ 3,367	\$ 7,580	\$ 6,742
Operating grants and contributions	13,626	13,804	-	-	13,626	13,804
Capital grants and contributions	763	539	-	-	763	539
General revenues:						
Property taxes	34,792	32,582	-	-	34,792	32,582
Excises	1,895	1,904	-	-	1,895	1,904
Penalties and interest on taxes	400	396	-	-	400	396
Grants and contributions not restricted to specific programs	2,001	2,083	2	1	2,003	2,084
Investment income	81	435	-	-	81	435
Other	124	367	-	-	124	367
Total revenues	<u>57,904</u>	<u>55,485</u>	<u>3,360</u>	<u>3,368</u>	<u>61,264</u>	<u>58,853</u>
Expenses:						
General government	2,304	1,789	-	-	2,304	1,789
Public safety	6,465	6,423	-	-	6,465	6,423
Education	33,496	33,574	-	-	33,496	33,574
Public works	2,926	2,866	-	-	2,926	2,866
Human services	529	422	-	-	529	422
Culture and recreation	1,291	1,102	-	-	1,291	1,102
Employee benefits	9,150	8,861	-	-	9,150	8,861
Interest on long-term debt	1,696	1,662	-	-	1,696	1,662
Intergovernmental	514	539	-	-	514	539
Miscellaneous	30	18	-	-	30	18
Water	-	-	2,753	2,857	2,753	2,857
Total expenses	<u>58,401</u>	<u>57,256</u>	<u>2,753</u>	<u>2,857</u>	<u>61,154</u>	<u>60,113</u>
Change in net assets before transfers	(497)	(1,771)	607	511	110	(1,260)
Transfers in (out)	(97)	337	147	(337)	50	-
Permanent fund contributions	-	14	-	-	-	14
Change in net assets	(594)	(1,420)	754	174	160	(1,246)
Net assets - beginning of year, as restated	<u>58,895</u>	<u>60,315</u>	<u>6,867</u>	<u>6,693</u>	<u>65,762</u>	<u>67,008</u>
Net assets - end of year	<u>\$ 58,301</u>	<u>\$ 58,895</u>	<u>\$ 7,621</u>	<u>\$ 6,867</u>	<u>\$ 65,922</u>	<u>\$ 65,762</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 \$65,922,250, a change of \$159,661 from the prior year.

The largest portion of net assets \$51,279,274 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 \$7,209,520 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$7,433,456 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 \$(593,693). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 2,007,015
Community preservation fund - accrual basis	(159,577)
Nonmajor funds - accrual basis	(682,481)
Principal debt service in excess of depreciation expense	1,265,212
Change in accrued other post-employment benefits	(2,969,612)
Other	<u>(54,250)</u>
Total	<u>\$ (593,693)</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net assets of \$753,354. Key elements of this change are as follows:

Water operations	\$ <u>753,354</u>
Total	<u>\$ 753,354</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 \$12,473,002, a change of \$7,497,664 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ 2,007,015
High school capital project operations	(592,453)
Community preservation fund expenditures over revenue	2,140,423
Nonmajor funds expenditures over revenue	<u>3,942,679</u>
Total	<u>\$ 7,497,664</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,692,738, while total fund balance was \$10,379,206. 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>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 3,692,738	\$ 2,398,111	\$ 1,294,627	7%
Total fund balance	10,379,206	8,372,191	2,007,015	20%

The total fund balance of the general fund changed by \$2,007,015 during the current fiscal year. Key factors in this change are as follows:

Revenue surplus	\$ 1,893,225
Appropriation turnbacks by departments	1,644,803
Excess property tax collections	518,091
Current year encumbrances to be spent in the subsequent year over prior year encumbrances to be spent in the current year	142,380
Use of free cash as a funding source	(2,394,387)
Change in stabilization	(39,122)
Other	<u>242,025</u>
Total	<u>\$ 2,007,015</u>

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

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
General stabilization	\$ <u>1,715,875</u>	\$ <u>1,676,753</u>	\$ <u>39,122</u>
Total	\$ <u><u>1,715,875</u></u>	\$ <u><u>1,676,753</u></u>	\$ <u><u>39,122</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 \$2,012,991, a change of \$570,938 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 \$107,105,481 (net of accumulated depreciation), a change of \$10,277,484 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 \$9,798,291

Additional information on capital assets can be found in the Notes to Financial Statements.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$51,900,484, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to Financial Statements.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of 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, 2012

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 10,840,727	\$ 1,809,187	\$ 12,649,914
Investments	12,290,965	-	12,290,965
Receivables, net of allowance for uncollectibles:			
Property taxes	482,478	-	482,478
Excises	124,661	-	124,661
User fees	-	1,113,548	1,113,548
Departmental and other	203,447	-	203,447
Intergovernmental	3,168,892	-	3,168,892
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	324,415	-	324,415
Intergovernmental	7,995,030	-	7,995,030
Capital Assets:			
Land and construction in progress	64,493,255	1,660,889	66,154,144
Other assets, net of accumulated depreciation	<u>31,815,078</u>	<u>9,136,259</u>	<u>40,951,337</u>
<b>TOTAL ASSETS</b>	<b>131,738,948</b>	<b>13,719,883</b>	<b>145,458,831</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	809,150	159,951	969,101
Taxes paid in advance	52,849	-	52,849
Accrued liabilities	184,909	16,648	201,557
Tax refunds payable	67,000	-	67,000
Notes payable	8,800,000	-	8,800,000
Other current liabilities	1,283,962	-	1,283,962
Current portion of long-term liabilities:			
Bonds payable	3,355,872	529,400	3,885,272
Compensated absence	134,944	7,011	141,955
Bond premium	103,161	-	103,161
Noncurrent:			
Bonds payable, net of current portion	43,355,212	4,660,000	48,015,212
Compensated absence	2,563,927	133,203	2,697,130
Bond premium	1,610,418	-	1,610,418
Accrued other post-employment benefits	<u>11,116,033</u>	<u>592,931</u>	<u>11,708,964</u>
<b>TOTAL LIABILITIES</b>	<b>73,437,437</b>	<b>6,099,144</b>	<b>79,536,581</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	45,671,526	5,607,748	51,279,274
Restricted for:			
Grants and other statutory restrictions	6,106,331	-	6,106,331
Permanent funds:			
Nonexpendable	166,460	-	166,460
Expendable	936,729	-	936,729
Unrestricted	<u>5,420,465</u>	<u>2,012,991</u>	<u>7,433,456</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>58,301,511</u></b>	<b>\$ <u>7,620,739</u></b>	<b>\$ <u>65,922,250</u></b>

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	<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>		
<b>Governmental Activities:</b>							
General government	\$ 2,303,867	\$ 779,515	\$ 78,000	\$ 238,335	\$ (1,208,017)	\$ -	\$ (1,208,017)
Public safety	6,465,121	1,022,797	14,274	-	(5,428,050)	-	(5,428,050)
Education	33,496,186	1,946,396	13,438,898	-	(18,110,892)	-	(18,110,892)
Public works	2,925,772	342,762	3,359	524,492	(2,055,159)	-	(2,055,159)
Health and human services	529,012	1,135	48,396	-	(479,481)	-	(479,481)
Culture and recreation	1,291,106	129,682	43,412	-	(1,118,012)	-	(1,118,012)
Employee benefits	9,150,096	-	-	-	(9,150,096)	-	(9,150,096)
Interest	1,696,473	-	-	-	(1,696,473)	-	(1,696,473)
Intergovernmental	513,932	-	-	-	(513,932)	-	(513,932)
Miscellaneous	29,940	-	-	-	(29,940)	-	(29,940)
Total Governmental Activities	58,401,505	4,222,287	13,626,339	762,827	(39,790,052)	-	(39,790,052)
<b>Business-Type Activities:</b>							
Water services	2,753,366	3,358,095	-	-	-	604,729	604,729
Total Business-Type Activities	2,753,366	3,358,095	-	-	-	604,729	604,729
Total	\$ 61,154,871	\$ 7,580,382	\$ 13,626,339	\$ 762,827	(39,790,052)	604,729	(39,185,323)
<b>General Revenues and Transfers:</b>							
Property taxes					34,792,055	-	34,792,055
Excises					1,894,844	-	1,894,844
Penalties, interest and other taxes					400,481	-	400,481
Grants and contributions not restricted to specific programs					2,000,931	1,604	2,002,535
Investment income					80,703	-	80,703
Miscellaneous					124,366	-	124,366
Transfers, net					(97,021)	147,021	50,000
Total general revenues and transfers					39,196,359	148,625	39,344,984
Change in Net Assets					(593,693)	753,354	159,661
<b>Net Assets:</b>							
Beginning of year, as restated					58,895,204	6,867,385	65,762,589
End of year					\$ 58,301,511	\$ 7,620,739	\$ 65,922,250

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	<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>
<b>ASSETS</b>					
Cash and short-term investments	\$ 1,535,886	\$ -	\$ 3,000,583	\$ 6,304,258	\$ 10,840,727
Investments	10,175,739	1,663,962	-	451,264	12,290,965
Receivables:					
Property taxes	922,509	-	-	-	922,509
Excises	201,519	-	-	6,838	208,357
Departmental and other	-	-	5,453	678,067	683,520
Due from other governments	-	<u>1,190,002</u>	-	<u>1,978,890</u>	<u>3,168,892</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 12,835,653</u></b>	<b><u>\$ 2,853,964</u></b>	<b><u>\$ 3,006,036</u></b>	<b><u>\$ 9,419,317</u></b>	<b><u>\$ 28,114,970</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Warrants payable	\$ 262,013	\$ 220,643	\$ 52,971	\$ 273,523	\$ 809,150
Taxes paid in advance	52,849	-	-	-	52,849
Deferred revenues	1,006,603	1,190,002	-	2,432,402	4,629,007
Tax refunds payable	67,000	-	-	-	67,000
Notes payable	-	8,500,000	-	300,000	8,800,000
Other liabilities	<u>1,067,982</u>	<u>-</u>	<u>5,453</u>	<u>210,527</u>	<u>1,283,962</u>
<b>TOTAL LIABILITIES</b>	<b>2,456,447</b>	<b>9,910,645</b>	<b>58,424</b>	<b>3,216,452</b>	<b>15,641,968</b>
Fund Balances:					
Nonspendable	-	-	-	166,460	166,460
Restricted	1,299,760	-	-	6,111,757	7,411,517
Committed	2,926,055	-	2,947,612	-	5,873,667
Assigned	2,460,653	-	-	-	2,460,653
Unassigned	<u>3,692,738</u>	<u>(7,056,681)</u>	<u>-</u>	<u>(75,352)</u>	<u>(3,439,295)</u>
<b>TOTAL FUND BALANCES</b>	<b><u>10,379,206</u></b>	<b><u>(7,056,681)</u></b>	<b><u>2,947,612</u></b>	<b><u>6,202,865</u></b>	<b><u>12,473,002</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 12,835,653</u></b>	<b><u>\$ 2,853,964</u></b>	<b><u>\$ 3,006,036</u></b>	<b><u>\$ 9,419,317</u></b>	<b><u>\$ 28,114,970</u></b>

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, 2012

<b>Total governmental fund balances</b>	\$ 12,473,002
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	96,308,333
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	3,949,622
<ul style="list-style-type: none"><li>• 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.</li></ul>	7,995,030
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(184,909)
<ul style="list-style-type: none"><li>• 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.</li></ul>	<u>(62,239,567)</u>
<b>Net assets of governmental activities</b>	<u>\$ 58,301,511</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, 2012

	General	High School Capital Project	Community Preservation Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property taxes	\$ 34,109,431	\$ -	\$ -	\$ 770,201	\$ 34,879,632
Excises	1,876,555	-	-	2,881	1,879,436
Penalties, interest, and other taxes	400,481	-	-	-	400,481
Charges for services	554,032	-	770,201	2,241,263	3,565,496
Licenses and permits	499,569	-	-	-	499,569
Fines and forfeitures	99,819	-	-	872	100,691
Intergovernmental	14,369,541	1,205,837	238,335	1,248,513	17,062,226
Investment income	50,032	-	-	30,671	80,703
Miscellaneous	1,084,480	-	192,273	185,589	1,462,342
Contributions	-	-	-	907,799	907,799
	<u>53,043,940</u>	<u>1,205,837</u>	<u>1,200,809</u>	<u>5,387,789</u>	<u>60,838,375</u>
<b>Expenditures:</b>					
Current:					
General government	1,822,068	-	351,637	243,343	2,417,048
Public safety	6,173,178	-	-	157,730	6,330,908
Education	29,858,101	9,798,290	-	3,493,071	43,149,462
Public works	2,381,485	-	-	1,308,110	3,689,595
Health and human services	368,746	-	-	58,981	427,727
Culture and recreation	547,425	-	291,803	263,232	1,102,460
Employee benefits	6,180,484	-	-	-	6,180,484
Miscellaneous	14,936	-	-	15,004	29,940
Debt service	4,287,133	-	-	9,075	4,296,208
Intergovernmental	513,932	-	-	-	513,932
	<u>52,147,488</u>	<u>9,798,290</u>	<u>643,440</u>	<u>5,548,546</u>	<u>68,137,764</u>
Excess (deficiency) of revenues over expenditures	896,452	(8,592,453)	557,369	(160,757)	(7,299,389)
<b>Other Financing Sources (Uses):</b>					
Proceeds of bonds	-	8,000,000	2,300,000	4,594,075	14,894,075
Transfers in	1,832,790	-	35,922	580,687	2,449,399
Transfers out	(722,227)	-	(752,868)	(1,071,326)	(2,546,421)
	<u>1,110,563</u>	<u>8,000,000</u>	<u>1,583,054</u>	<u>4,103,436</u>	<u>14,797,053</u>
Change in fund balance	2,007,015	(592,453)	2,140,423	3,942,679	7,497,664
Fund Equity, at Beginning of Year	8,372,191	(6,464,228)	807,189	2,260,186	4,975,338
Fund Equity, at End of Year	<u>\$ 10,379,206</u>	<u>\$ (7,056,681)</u>	<u>\$ 2,947,612</u>	<u>\$ 6,202,865</u>	<u>\$ 12,473,002</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, 2012

<b>NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 7,497,664</b>																						
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">11,249,851</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(1,340,660)</td> </tr> </table> </li> <li>• 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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(706,983)</td> </tr> </table> </li> <li>• 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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(888,582)</td> </tr> </table> </li> <li>• 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: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(14,885,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">2,605,872</td> </tr> <tr> <td>Issuance of bond premium</td> <td style="text-align: right;">(1,347,049)</td> </tr> <tr> <td>Amortization of bond premium</td> <td style="text-align: right;">36,862</td> </tr> </table> </li> <li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(43,000)</td> </tr> </table> </li> <li>• 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. <table border="0" style="margin-left: 40px;"> <tr> <td>Compensated absences</td> <td style="text-align: right;">196,944</td> </tr> <tr> <td>Net OPEB obligation</td> <td style="text-align: right;"><u>(2,969,612)</u></td> </tr> </table> </li> </ul>		Capital outlay purchases	11,249,851	Depreciation	(1,340,660)		(706,983)		(888,582)	Issuance of debt	(14,885,000)	Repayments of debt	2,605,872	Issuance of bond premium	(1,347,049)	Amortization of bond premium	36,862		(43,000)	Compensated absences	196,944	Net OPEB obligation	<u>(2,969,612)</u>
Capital outlay purchases	11,249,851																						
Depreciation	(1,340,660)																						
	(706,983)																						
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Amortization of bond premium	36,862																						
	(43,000)																						
Compensated absences	196,944																						
Net OPEB obligation	<u>(2,969,612)</u>																						
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u><u>(593,693)</u></u></b>																						

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, 2012

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>Revenues and other sources:</b>				
Property taxes	\$ 33,591,340	\$ 33,591,340	\$ 33,591,340	\$ -
Excises	1,576,000	1,576,000	1,876,555	300,555
Penalties, interest, and other taxes	190,000	190,000	400,481	210,481
Charges for services	400,000	400,000	554,032	154,032
Licenses and permits	300,000	300,000	499,569	199,569
Fines and forfeitures	50,000	50,000	99,819	49,819
Intergovernmental	8,657,875	8,657,875	8,857,029	199,154
Investment income	50,000	50,000	89,154	39,154
Other revenues	344,019	344,019	1,084,480	740,461
Other financing sources:				
Transfers in	1,832,790	1,832,790	1,832,790	-
Use of fund balance	2,394,387	2,394,387	2,394,387	-
Total Revenues	<u>49,386,411</u>	<u>49,386,411</u>	<u>51,279,636</u>	<u>1,893,225</u>
<b>Expenditures and other uses:</b>				
Current:				
General government	2,104,224	2,104,224	1,941,955	162,269
Public safety	6,578,008	6,578,008	6,365,334	212,674
Education	24,347,115	24,347,115	24,323,604	23,511
Public works	2,695,645	2,695,645	2,322,993	372,652
Health and human services	362,397	362,397	368,741	(6,344)
Culture and recreation	550,259	550,259	547,505	2,754
Employee benefits	6,821,708	6,821,708	6,091,223	730,485
Debt service	4,737,024	4,737,024	4,544,094	192,930
Intergovernmental	516,848	516,848	513,932	2,916
Other financing uses:				
Transfers out	673,183	673,183	722,227	(49,044)
Total Expenditures	<u>49,386,411</u>	<u>49,386,411</u>	<u>47,741,608</u>	<u>1,644,803</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,538,028</u>	<u>\$ 3,538,028</u>

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-Type Activities <u>Enterprise Funds</u>
	<u>Water Fund</u>
<b><u>ASSETS</u></b>	
Current:	
Cash and short-term investments	\$ 1,809,187
User fees, net of allowance for uncollectibles	<u>1,113,548</u>
Total current assets	2,922,735
Noncurrent:	
Capital Assets:	
Land and construction in progress	1,660,889
Other assets, net of accumulated depreciation	<u>9,136,259</u>
Total noncurrent assets	<u>10,797,148</u>
<b>TOTAL ASSETS</b>	<b>13,719,883</b>
<b><u>LIABILITIES</u></b>	
Current:	
Warrants payable	159,951
Accrued liabilities	16,648
Current portion of long-term liabilities:	
Bonds payable	529,400
Compensated absence	<u>7,011</u>
Total current liabilities	713,010
Noncurrent:	
Bonds payable, net of current portion	4,660,000
Compensated absence, net of current portion	133,203
Net OPEB obligation	<u>592,931</u>
Total noncurrent liabilities	<u>5,386,134</u>
<b>TOTAL LIABILITIES</b>	<b>6,099,144</b>
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	5,607,748
Unrestricted	<u>2,012,991</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u><u>7,620,739</u></u></b>

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, 2012

	Business-Type Activities Enterprise Funds
	<u>Water Fund</u>
<b>Operating Revenues:</b>	
Charges for services	\$ 3,293,730
Other	<u>60,078</u>
Total Operating Revenues	3,353,808
<b>Operating Expenses:</b>	
Operating expenses	2,050,305
Depreciation	314,817
Employee benefits	<u>152,505</u>
Total Operating Expenses	<u>2,517,627</u>
Operating Income (Loss)	836,181
<b>Nonoperating Revenues (Expenses):</b>	
Intergovernmental revenue	1,604
Investment income	4,287
Interest expense	<u>(235,739)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(229,848)</u>
Income (Loss) Before Transfers	606,333
<b>Transfers:</b>	
Transfers in	505,437
Transfers out	<u>(358,416)</u>
Change in Net Assets	753,354
Net Assets at Beginning of Year	<u>6,867,385</u>
Net Assets at End of Year	<u><u>\$ 7,620,739</u></u>

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities <u>Enterprise Funds</u>
	<u>Water Fund</u>
<b><u>Cash Flows From Operating Activities:</u></b>	
Receipts from customers and users	\$ 3,305,704
Payments to vendors and employees	<u>(1,992,912)</u>
Net Cash Provided By Operating Activities	1,312,792
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>	
Transfers in	505,437
Transfers out	<u>(358,416)</u>
Net Cash (Used For) Noncapital Financing Activities	147,021
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>	
Acquisition and construction of capital assets	(683,110)
Principal payments on bonds and notes	(564,123)
Interest expense	(235,739)
Intergovernmental subsidy	<u>1,604</u>
Net Cash (Used For) Capital and Related Financing Activities	(1,481,368)
<b><u>Cash Flows From Investing Activities:</u></b>	
Investment income	<u>4,287</u>
Net Cash Provided By Investing Activities	<u>4,287</u>
Net Change in Cash and Short-Term Investments	(17,268)
Cash and Short-Term Investments, Beginning of Year	<u>1,826,455</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,809,187</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>	
Operating income	\$ 836,181
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	314,817
Changes in assets and liabilities:	
User fees	(48,104)
Warrants and accounts payable	59,769
Accrued liabilities	(2,376)
Compensated absences	2,077
Accrued other post-employment	<u>150,428</u>
Net Cash Provided By Operating Activities	<u>\$ 1,312,792</u>

See notes to financial statements.

TOWN OF HANOVER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Private Purpose Trust Funds	Agency Funds
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ <u>138,898</u>	\$ <u>597,738</u>
Total Assets	138,898	597,738
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Warrants payable	-	5,367
Escrow deposits	<u>-</u>	<u>592,371</u>
Total Liabilities	<u>-</u>	<u>597,738</u>
<b><u>NET ASSETS</u></b>		
Net assets	\$ <u><u>138,898</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, 2012

	<u>Private Purpose Trust Funds</u>
<b>Additions:</b>	
Contributions:	
Other	\$ 85,000
Total contributions	<u>85,000</u>
Investment Income (Loss):	
Increase (decrease) in fair value of investments	<u>5</u>
Net investment income (loss)	<u>5</u>
Total additions	<u>85,005</u>
Net increase (decrease)	85,005
<b>Net assets:</b>	
Beginning of year	<u>53,893</u>
End of year	<u><u>\$ 138,898</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 2012, 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 2012 tax levy reflected an excess capacity of \$2,852.

*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., Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. 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)	\$ 53,043,940	\$ 52,147,488
Other financing sources/uses (GAAP basis)	<u>1,832,790</u>	<u>722,227</u>
Subtotal (GAAP Basis)	54,876,730	52,869,715
Adjust tax revenue to accrual basis	(518,091)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,299,050)
Add end-of-year appropriation carryforwards from expenditures	-	1,441,430
To record use of free cash	2,394,387	-
To remove unbudgeted stabilization fund	39,122	-
To reverse the effect of non- budgeted State contributions for teachers retirement	(5,512,512)	(5,512,512)
Other timing issues	<u>-</u>	<u>242,025</u>
Budgetary basis	<u>\$ 51,279,636</u>	<u>\$ 47,741,608</u>

*D. Deficit Fund Equity*

The following funds had deficits as of June 30, 2012:

FY12 Traffic enforcement	\$ (2,954)
ECC FY12 State 911 Training	(4,890)
ECC FY12 State 911 Grant Support	(37,732)
Indians Tepee	(763)
Green Community Grant DOER	(29,013)
High school capital project	<u>(7,056,681)</u>
	<u>\$ (7,132,033)</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, 2012, \$112,167 of the Town's bank balance of \$15,509,009 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>	<u>Bbb</u>
Certificates of deposits	\$ 10,160		\$ -	\$ 10,160	\$ -	-
Corporate bonds	190		-	-	105	85
Mutual funds	1,529	N/A	1,529	-	-	-
Federal agency securities	<u>412</u>		<u>-</u>	<u>412</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 12,291</u>		<u>\$ 1,529</u>	<u>\$ 10,572</u>	<u>\$ 105</u>	<u>\$ 85</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</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Debt Related Securities:			
Certificates of deposit	\$ 10,160	\$ 9,676	\$ 484
Corporate bonds	190	-	190
Federal agency securities	412	-	412
Total	<u>\$ 10,762</u>	<u>\$ 9,676</u>	<u>\$ 1,086</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, 2012 consist of the following (in thousands):

Real Estate		
2012	\$ 338	
2011	41	
2010	18	
2009	6	
2008	4	
Prior	<u>3</u>	
		410
Personal Property		
2012	18	
2011	6	
2010	12	
2009	1	
2008	<u>1</u>	
		38
Tax Liens		360
Deferred Taxes		<u>115</u>
Total		\$ <u><u>923</u></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	\$ 116	\$ -
Excises	\$ 84	\$ -
Utilities	\$ -	\$ 48
Other	\$ 480	\$ -

## 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012.

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 43,485	\$ -	\$ -	\$ 43,485
Machinery, equipment, and furnishings	3,097	-	-	3,097
Vehicles	6,019	-	-	6,019
Infrastructure	<u>21,650</u>	<u>1,307</u>	<u>-</u>	<u>22,957</u>
Total capital assets, being depreciated	74,251	1,307	-	75,558
Less accumulated depreciation for:				
Buildings and improvements	(20,956)	(672)	-	(21,628)
Machinery, equipment, and furnishings	(1,578)	(167)	-	(1,745)
Vehicles	(5,370)	(54)	-	(5,424)
Infrastructure	<u>(14,499)</u>	<u>(447)</u>	<u>-</u>	<u>(14,946)</u>
Total accumulated depreciation	<u>(42,403)</u>	<u>(1,340)</u>	<u>-</u>	<u>(43,743)</u>
Total capital assets, being depreciated, net	31,848	(33)	-	31,815
Capital assets, not being depreciated:				
Land	9,591	-	-	9,591
Construction in progress	<u>44,959</u>	<u>9,943</u>	<u>-</u>	<u>54,902</u>
Total capital assets, not being depreciated	<u>54,550</u>	<u>9,943</u>	<u>-</u>	<u>64,493</u>
Governmental activities capital assets, net	<u>\$ 86,398</u>	<u>\$ 9,910</u>	<u>\$ -</u>	<u>\$ 96,308</u>

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Business-Type Activities:</b>				
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	(1,432)	(146)	-	(1,578)
Other	<u>(6,846)</u>	<u>(169)</u>	<u>-</u>	<u>(7,015)</u>
Total accumulated depreciation	<u>(8,278)</u>	<u>(315)</u>	<u>-</u>	<u>(8,593)</u>
Total capital assets, being depreciated, net	9,452	(315)	-	9,137
Capital assets, not being depreciated:				
Land	977	-	-	977
Construction in progress	<u>-</u>	<u>683</u>	<u>-</u>	<u>683</u>
Total capital assets, not being depreciated	<u>977</u>	<u>683</u>	<u>-</u>	<u>1,660</u>
Business-type activities capital assets, net	<u>\$ 10,429</u>	<u>\$ 368</u>	<u>\$ -</u>	<u>\$ 10,797</u>

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

<b>Governmental Activities:</b>	
General government	\$ 14
Public safety	154
Education	348
Public works	550
Health and human services	100
Culture and recreation	<u>174</u>
Total depreciation expense - governmental activities	<u>\$ 1,340</u>
<b>Business-Type Activities:</b>	
Water	<u>\$ 315</u>
Total depreciation expense - business-type activities	<u>\$ 315</u>

## 9. Warrants Payable

Warrants payable represent 2012 expenditures paid by July 15, 2012.

**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, 2012 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, 2012:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/12</u>
Bond anticipation	1.00%	09/15/11	09/14/12	\$ 6,000,000
Bond anticipation	1.00%	03/29/12	09/14/12	2,500,000
Bond anticipation	0.00%	01/15/12	01/15/13	<u>300,000</u>
Total				<u>\$ 8,800,000</u>

The following summarizes activity in notes payable during fiscal year 2012:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
	\$ <u>19,340,000</u>	\$ <u>2,800,000</u>	\$ <u>(13,340,000)</u>	\$ <u>8,800,000</u>
Total	<u>\$ 19,340,000</u>	<u>\$ 2,800,000</u>	<u>\$ (13,340,000)</u>	<u>\$ 8,800,000</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 6/30/12</u>
General purpose refunding	5/15/17	2.00%	\$ 44,500
General purpose refunding	5/15/18	2.00%	150,000
Police station construction refunding	5/15/17	2.00%	850,500
General purpose	6/15/19	3.25-4.50%	75,000
General purpose	8/15/16	4.00%	440,000
General purpose	5/15/27	3.25-4.00%	2,330,000
General purpose	5/15/29	3.00%	17,840,000
School reconstruction refunding	5/15/21	4.50%	8,555,000
Library reconstruction refunding	5/15/21	4.50%	1,015,000
Septic betterment	8/1/18	0.00%	76,084
Landfill closure refunding	5/15/18	2.00%	450,000
General obligation loan	06/30/32	3.00%	<u>14,885,000</u>
Total Governmental Activities:			<u>\$ 46,711,084</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/12</u>
Stormwater management	08/01/22	3.00%	\$ 114,400
Well and mains refunding	05/15/15	2.00%	50,000
Plant construction and mains	06/15/24	3.25-4.80%	3,345,000
Water building and mains	08/15/16	4.00%	710,000
Plant and mains	05/15/27	3.25-4.00%	220,000
Alternative Energy	06/30/32	3.00%	<u>750,000</u>
Total Business-Type Activities:			<u>\$ 5,189,400</u>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,355,872	\$ 1,731,880	\$ 5,087,752
2014	3,360,872	1,642,292	5,003,164
2015	3,400,868	1,552,446	4,953,314
2016	3,400,868	1,461,880	4,862,748
2017	3,405,868	1,317,956	4,723,824
2018 - 2022	14,736,736	4,663,226	19,399,962
2023 - 2027	10,140,000	2,170,545	12,310,545
2028 - 2032	<u>4,910,000</u>	<u>440,710</u>	<u>5,350,710</u>
Total	<u>\$ 46,711,084</u>	<u>\$ 14,980,935</u>	<u>\$ 61,692,019</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 529,400	\$ 212,247	\$ 741,647
2014	530,000	192,227	722,227
2015	525,000	172,251	697,251
2016	480,000	152,534	632,534
2017	490,000	132,597	622,597
2018 - 2022	1,715,000	425,702	2,140,702
2023 - 2027	815,000	87,276	902,276
2028 - 2032	<u>105,000</u>	<u>7,800</u>	<u>112,800</u>
Total	<u>\$ 5,189,400</u>	<u>\$ 1,382,634</u>	<u>\$ 6,572,034</u>

### C. Changes in General Long-Term Liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/11</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/12</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/12</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 34,432	\$ 14,885	\$ (2,606)	\$ 46,711	\$ (3,356)	\$ 43,355
Other:						
Compensated absences	2,896	-	(197)	2,699	(135)	2,564
Bond premium	403	1,347	(37)	1,713	(103)	1,610
Accrued other post-employment benefits	<u>8,146</u>	<u>2,970</u>	<u>-</u>	<u>11,116</u>	<u>-</u>	<u>11,116</u>
Totals	<u>\$ 45,877</u>	<u>\$ 19,202</u>	<u>\$ (2,840)</u>	<u>\$ 62,239</u>	<u>\$ (3,594)</u>	<u>\$ 58,645</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 5,003	\$ 750	\$ (564)	\$ 5,189	\$ (529)	\$ 4,660
Other:						
Compensated absences	138	2	-	140	(7)	133
Accrued other post-employment benefits	<u>443</u>	<u>150</u>	<u>-</u>	<u>593</u>	<u>-</u>	<u>593</u>
Totals	<u>\$ 5,584</u>	<u>\$ 902</u>	<u>\$ (564)</u>	<u>\$ 5,922</u>	<u>\$ (536)</u>	<u>\$ 5,386</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. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2012:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, capital reserve funds set aside by Town Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2012:

	General Fund	High School Capital Project Fund	Community Preservation Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 166,460	\$ 166,460
Total Nonspendable	-	-	-	166,460	166,460
<b>Restricted</b>					
Bonded projects	-	-	-	1,940,957	1,940,957
Debt Service	1,299,760	-	-	-	1,299,760
Special revenue funds	-	-	-	3,234,071	3,234,071
Expendable permanent funds	-	-	-	936,729	936,729
Total Restricted	1,299,760	-	-	6,111,757	7,411,517
<b>Committed</b>					
Continued appropriations	1,210,180	-	-	-	1,210,180
Stabilization	1,715,875	-	-	-	1,715,875
Community preservation	-	-	2,947,612	-	2,947,612
Total Committed	2,926,055	-	2,947,612	-	5,873,667
<b>Assigned</b>					
Encumbrances	231,250	-	-	-	231,250
Reserved for expenditures	2,229,403	-	-	-	2,229,403
Total Assigned	2,460,653	-	-	-	2,460,653
<b>Unassigned</b>					
	3,692,738	(7,056,681)	-	(75,352)	(3,439,295)
Total Unassigned	3,692,738	(7,056,681)	-	(75,352)	(3,439,295)
Total Fund Balances	\$ 10,379,206	\$ (7,056,681)	\$ 2,947,612	\$ 6,202,865	\$ 12,473,002

## 16. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in 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	\$ 3,692,738
Tax refund estimate	<u>67,000</u>
Statutory (UMAS) Balance	\$ <u>3,759,738</u>

**17. Subsequent Events**

Debt

Subsequent to June 30, 2012, the Town has incurred the following debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ 8,500,000	1.25%	09/14/12	09/13/13

**18. Interfund Transfers**

Transfers between Governmental Activities and Business-type Activities do not offset by \$50,000. This is due to transfers between Governmental Activities and the Agency Fund.

**19. 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.

**20. 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 2012 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, 2012, 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)	\$ 4,503,485
Interest on net OPEB obligation	365,029
Adjustment to ARC	<u>(359,559)</u>
Annual OPEB cost	4,508,955
Contributions made	<u>(1,388,915)</u>
Increase in net OPEB obligation	3,120,040
Net OPEB obligation - beginning of year	<u>8,588,924</u>
Net OPEB obligation - end of year	<u>\$ 11,708,964</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>
2012	\$ 4,508,955	31%	\$ 11,708,964
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, 2012 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>166.7%</u>

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

*F. Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members

to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced 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%.

## **21. 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 Massachu-

setts General Laws. The Town's contributions to the System for the years ended June 30, 2012, 2011, and 2010 were \$2,021,104, \$2,055,177, and \$1,812,398, 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.

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 2012, the Commonwealth of Massachusetts contributed \$5,512,512 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

**22. 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.

**23. Beginning Net Assets Restatement**

The beginning (July 1, 2011) net assets of the Town have been restated as follows:

Government-Wide Financial Statements:

	<u>Governmental Activities</u>
As previously reported	\$ 62,654,459
To adjust prior year MSBA receivable	<u>(3,759,255)</u>
As restated	<u>\$ 58,895,204</u>

**24. Implementation of New GASB Standard**

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



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

**June 30, 2012**

**(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%
01/01/11	\$ -	\$ 47,798	\$ 47,798	0.0%	\$ 28,675	166.7%

See Independent Auditors' Report.