

TOWN OF HANOVER, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen and Town Manager
Town of Hanover, New Hampshire

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hanover, New Hampshire, as of and for the year ended June 30, 2009, 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. 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.

As discussed in Note 2 to the financial statements, management has not recorded capital assets in its governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated, which would increase the assets, net assets and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities is not reasonably determined.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Town of Hanover, as of June 30, 2009, and the changes in financial position, thereof for

Additional Offices:

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

the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, each major fund and the aggregate remaining fund information of the Town of Hanover, as of June 30, 2009, and the respective changes in financial position, 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, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied 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.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
November 16, 2009

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, 2009.

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, and culture and recreation.

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 two categories: governmental 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.

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 \$ (3,837,567) (i.e., net assets), a change of \$ 350,098 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,807,394, a change of \$ 224,370 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 931,371, a change of \$ 165,020 in comparison with the prior year.

- Bonds payable at the close of the current fiscal year was \$ 8,045,757, a change of \$ (363,198) 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 Activities</u>	
	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 23,934,462	\$ 23,605,144
Total assets	<u>23,934,462</u>	<u>23,605,144</u>
Long-term liabilities outstanding	10,989,573	11,405,830
Other liabilities	<u>16,782,456</u>	<u>16,386,979</u>
Total liabilities	<u>27,772,029</u>	<u>27,792,809</u>
Net assets:		
Invested in capital assets, net	(8,301,990)	(6,523,087)
Restricted	5,095,758	4,396,597
Unrestricted	<u>(631,335)</u>	<u>(2,061,175)</u>
Total net assets	<u>\$ (3,837,567)</u>	<u>\$ (4,187,665)</u>

CHANGES IN NET ASSETS

	<u>Governmental</u>	
	<u>2009</u>	<u>2008</u>
Revenues:		
Program revenues		
Charges for services	\$ 6,777,686	\$ 6,631,156
Operating grants and contributions	603,485	691,194
Capital grants and contributions	-	-
General revenues:		
Property taxes	9,384,146	9,784,582
Motor vehicle permit fees	1,252,578	1,368,296

(continued)

(continued)

Penalties, interest, and other taxes	119,280	129,812
Grants and contributions not restricted to specific programs	911,154	1,459,571
Investment income	131,438	485,501
Miscellaneous	<u>97,048</u>	<u>78,651</u>
Total revenues	19,276,815	20,628,763
Expenses:		
General government	4,384,585	4,237,044
Public safety	6,523,455	6,064,334
Highway and streets	2,853,248	2,574,855
Sanitation	2,726,091	4,427,590
Health and human services	280,495	266,434
Culture and recreation	1,552,951	1,353,960
Miscellaneous	238,031	246,314
Interest on long-term debt	<u>406,413</u>	<u>296,419</u>
Total expenses	<u>18,965,269</u>	<u>19,466,950</u>
Change in net assets before permanent fund contributions	311,546	1,161,813
Permanent fund contributions	<u>38,552</u>	<u>20,784</u>
Increase in net assets	350,098	1,182,597
Net assets - beginning of	<u>(4,187,665)</u>	<u>(5,370,262)</u>
Net assets - end of year	<u>\$ (3,837,567)</u>	<u>\$ (4,187,665)</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 \$ (3,837,567), a change of \$ 350,098 from the prior year.

Invested in capital assets is the largest portion of net assets and reflects a negative balance of \$ (8,301,990). This negative balance resulted because the Town does not record capital assets (e.g., land, buildings, machinery, equipment, and infrastructure) in the financial statements. Capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 5,095,758 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ (631,335), if it were positive, 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 \$ 350,098. Key elements of this change are as follows:

General fund operations, as discussed further in section D	\$ 9,020
Water reclamation fund activity	3,149
Nonmajor fund activity	212,201
Principal debt service payments	534,491
Other	<u>(408,763)</u>
Total	<u>\$ 350,098</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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,807,394, a change of \$ 224,370 in comparison with the prior year. Key elements of this change are as follows:

General fund expenditures and transfers out in excess of revenues and transfers in	\$ 9,020
Water reclamation fund activity	3,149
Nonmajor fund activity	<u>212,201</u>
Total	<u>\$ 224,370</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 931,371, while total fund balance was \$ 1,293,667. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 8.22 percent of total general fund expenditures, while total fund balance represents 11.42 percent of that same amount.

The fund balance of the general fund changed by \$ 9,020 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ (425,129)
Expenditures less than budget	586,493
Other timing issues	<u>(152,344)</u>
Total	<u>\$ 9,020</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

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

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 8,045,757, 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 footnotes 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:

Director of Administrative Services
Town of Hanover
P.O. Box 483
Hanover, New Hampshire 03755
(603) 640-3203

TOWN OF HANOVER, NEW HAMPSHIRE

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental <u>Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 17,545,542
Receivables, net of allowance for uncollectibles:	
Property taxes	5,254,798
User fees	462,679
Intergovernmental	29,303
Other assets	45,028
Noncurrent:	
Investment	73,200
Intergovernmental receivables	<u>523,912</u>
TOTAL ASSETS	23,934,462
LIABILITIES	
Current:	
Accounts payable	566,253
Accrued liabilities	225,884
Internal balances	41,528
Deferred revenue	3,912,772
Other current liabilities	12,036,019
Current portion of long-term liabilities:	
Bonds payable	368,198
Notes payable	100,000
Other liabilities	160,426
Noncurrent:	
Bonds payable, net of current portion	7,677,559
Notes payable, net of current portion	1,400,000
OPEB liability	186,684
Other liabilities, net of current portion	<u>1,096,706</u>
TOTAL LIABILITIES	27,772,029
NET ASSETS	
Invested in capital assets, net of related debt	(8,301,990)
Restricted for:	
Grants and other statutory restrictions	4,632,449
Permanent funds:	
Nonexpendable	386,542
Expendable	76,767
Unrestricted	<u>(631,335)</u>
TOTAL NET ASSETS	\$ <u>(3,837,567)</u>

See notes to financial statements.

TOWN OF HANOVER, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u> <u>Governmental Activities</u>
Governmental Activities:					
General government	\$ 4,384,585	\$ 540,873	\$ 141,872	\$ -	\$ (3,701,840)
Public safety	6,523,455	2,855,289	311,034	-	(3,357,132)
Highway and streets	2,853,248	54,016	126,255	-	(2,672,977)
Sanitation	2,726,091	3,005,719	-	-	279,628
Health and human services	280,495	20,228	300	-	(259,967)
Culture and recreation	1,552,951	301,561	24,024	-	(1,227,366)
Miscellaneous	238,031	-	-	-	(238,031)
Interest	406,413	-	-	-	(406,413)
Total Governmental Activities	<u>\$ 18,965,269</u>	<u>\$ 6,777,686</u>	<u>\$ 603,485</u>	<u>\$ -</u>	(11,584,098)
General Revenues and Permanent Fund Contributions:					
Property taxes					9,384,146
Motor vehicle permit fees					1,252,578
Penalties, interest, and other taxes					119,280
Grants and contributions not restricted to specific programs					911,154
Investment income					131,438
Miscellaneous					97,048
Permanent fund contributions					<u>38,552</u>
Total general revenues and contributions					<u>11,934,196</u>
Change in Net Assets					350,098
Net Assets:					
Beginning of year, as restated					<u>(4,187,665)</u>
End of year					<u>\$ (3,837,567)</u>

See notes to financial statements.

TOWN OF HANOVER, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

	<u>General</u>	<u>Water Reclamation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 14,548,037	\$ -	\$ 2,997,505	\$ 17,545,542
Receivables:				
Property taxes	5,830,784	-	-	5,830,784
User fees	80,204	308,880	77,363	466,447
Intergovernmental	196	-	-	196
Due from other funds	-	330,782	2,306,819	2,637,601
Other assets	19,391	-	25,637	45,028
	<u>20,478,612</u>	<u>639,662</u>	<u>5,407,324</u>	<u>26,525,598</u>
TOTAL ASSETS	\$ 20,478,612	\$ 639,662	\$ 5,407,324	\$ 26,525,598
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 414,039	\$ 43,452	\$ 108,762	\$ 566,253
Accrued liabilities	62,434	-	-	62,434
Due to other governments	12,032,764	-	-	12,032,764
Deferred revenues	3,996,308	308,880	69,181	4,374,369
Due to other funds	2,679,129	-	-	2,679,129
Deposits held in custody	-	-	2,984	2,984
Other liabilities	271	-	-	271
	<u>19,184,945</u>	<u>352,332</u>	<u>180,927</u>	<u>19,718,204</u>
TOTAL LIABILITIES	19,184,945	352,332	180,927	19,718,204
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	314,336	39,457	196,086	549,879
Expenditures	47,960	-	-	47,960
Perpetual (nonexpendable) permanent funds	-	-	386,542	386,542
Unreserved:				
Undesignated, reported in:				
General fund	931,371	-	-	931,371
Special revenue funds	-	247,873	4,436,363	4,684,236
Capital project funds	-	-	130,639	130,639
Permanent funds	-	-	76,767	76,767
	<u>1,293,667</u>	<u>287,330</u>	<u>5,226,397</u>	<u>6,807,394</u>
TOTAL FUND BALANCES	1,293,667	287,330	5,226,397	6,807,394
TOTAL LIABILITIES AND FUND BALANCES	\$ 20,478,612	\$ 639,662	\$ 5,407,324	\$ 26,525,598

See notes to financial statements.

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

JUNE 30, 2009

Total governmental fund balances	\$ 6,807,394
• Investment in Hanover Water Company is not a financial resource and, therefore, are not reported in the funds.	73,200
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	434,862
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(163,450)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(10,989,573)</u>
Net assets of governmental activities	<u>\$ (3,837,567)</u>

See notes to financial statements.

TOWN OF HANOVER, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Water Reclamation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 7,186,887	\$ -	\$ 2,781,266	\$ 9,968,153
Penalties, interest and other taxes	119,127	-	-	119,127
Charges for services	897,123	2,681,089	2,706,227	6,284,439
Intergovernmental	1,259,072	48,837	-	1,307,909
Licenses and permits	1,607,522	-	-	1,607,522
Investment income	134,725	-	(3,287)	131,438
Miscellaneous	95,864	-	655	96,519
Contributions	32,852	529	5,700	39,081
Total Revenues	<u>11,333,172</u>	<u>2,730,455</u>	<u>5,490,561</u>	<u>19,554,188</u>
Expenditures:				
Current:				
General government	3,932,862	-	439,518	4,372,380
Public safety	2,268,114	-	4,447,673	6,715,787
Highway and streets	2,707,947	-	-	2,707,947
Sanitation	214,816	2,003,535	542,465	2,760,816
Health and human services	280,495	-	-	280,495
Culture and recreation	1,473,439	-	33,949	1,507,388
Miscellaneous	-	-	25,823	25,823
Debt service	242,744	248,656	326,503	817,903
Capital outlay	212,208	-	-	212,208
Total Expenditures	<u>11,332,625</u>	<u>2,252,191</u>	<u>5,815,931</u>	<u>19,400,747</u>
Excess (deficiency) of revenues over expenditures	547	478,264	(325,370)	153,441
Other Financing Sources (Uses):				
Lease proceeds	70,929	-	-	70,929
Transfers in	436,844	91,965	1,262,666	1,791,475
Transfers out	(499,300)	(567,080)	(725,095)	(1,791,475)
Total Other Financing Sources (Uses)	<u>8,473</u>	<u>(475,115)</u>	<u>537,571</u>	<u>70,929</u>
Change in fund balance	9,020	3,149	212,201	224,370
Fund Equity, at Beginning of Year, as restated	<u>1,284,647</u>	<u>284,181</u>	<u>5,014,196</u>	<u>6,583,024</u>
Fund Equity, at End of Year	<u>\$ 1,293,667</u>	<u>\$ 287,330</u>	<u>\$ 5,226,397</u>	<u>\$ 6,807,394</u>

See notes to financial statements.

TOWN OF HANOVER, NEW HAMPSHIRE

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, 2009

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 224,370
<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 (i.e., property taxes, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(238,821)
<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:<ul style="list-style-type: none">Issuance of debtRepayments of debt	(70,929) 534,491
<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.	(51,708)
<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.	<u>(47,305)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>350,098</u></u>

See notes to financial statements.

TOWN OF HANOVER, NEW HAMPSHIRE

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 7,124,422	\$ 7,124,422	\$ 7,124,422	\$ -
Penalties, interest and other taxes	186,460	186,460	119,127	(67,333)
Charges for services	936,250	936,250	897,123	(39,127)
Intergovernmental	887,142	887,142	1,050,964	163,822
Licenses and permits	1,771,475	1,771,475	1,607,522	(163,953)
Investment income	345,000	345,000	134,725	(210,275)
Miscellaneous	95,975	95,975	95,864	(111)
Contributions	31,000	31,000	32,852	1,852
Transfers in	546,848	546,848	436,844	(110,004)
Total Revenues and Other Sources	11,924,572	11,924,572	11,499,443	(425,129)
Expenditures and Other Uses:				
General government	4,165,127	4,165,127	3,800,561	364,566
Public safety	2,071,203	2,071,203	2,105,105	(33,902)
Highway and streets	2,525,144	2,525,144	2,528,594	(3,450)
Sanitation	232,178	232,178	205,816	26,362
Health and human services	290,304	290,304	280,495	9,809
Culture and recreation	1,435,902	1,435,902	1,463,256	(27,354)
Debt service	242,744	242,744	242,744	-
Capital outlay	238,300	238,300	212,208	26,092
Transfers out	723,670	723,670	499,300	224,370
Total Expenditures and Other Uses	11,924,572	11,924,572	11,338,079	586,493
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 161,364	\$ 161,364

See notes to financial statements.

TOWN OF HANOVER, NEW HAMPSHIRE
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2009

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ -	\$ 1,776,841
Investments	49,778	1,039,283
Due from other funds	<u>-</u>	<u>41,528</u>
Total Assets	49,778	2,857,652
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	-	448
Due to other governments	-	1,577,960
Other liabilities	<u>-</u>	<u>1,279,244</u>
Total Liabilities	<u>-</u>	<u>2,857,652</u>
<u>NET ASSETS</u>		
Total net assets	<u>\$ 49,778</u>	<u>\$ -</u>

See notes to financial statements.

TOWN OF HANOVER, NEW HAMPSHIRE
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2009

	<u>Private Purpose Trust Funds</u>
Additions:	
Increase (decrease) in fair value of investments	\$ <u>(8,691)</u>
Total additions	(8,691)
Deductions:	
Other	<u>693</u>
Total deductions	<u>693</u>
Net increase (decrease)	(9,384)
Net assets:	
Beginning of year	<u>59,162</u>
End of year	\$ <u><u>49,778</u></u>

See notes to financial statements.

TOWN OF HANOVER, NEW HAMPSHIRE

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, except as indicated in Note 2. 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 2009, 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 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 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.

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 *Water Reclamation Fund* accounts for services relating to waste water activities.

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 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.

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. Interfund Receivables and Payables

Transactions between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans).

G. *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.

H. *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.

I. *Fund Equity*

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

J. *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. Departures from Generally Accepted Accounting Principles

The significant departures of the financial statements from generally accepted accounting principles are as follows:

Capital assets acquisitions are not capitalized in the governmental activities nor is depreciation expense recorded on these assets. This is a departure from generally accepted accounting principles of the United States of America.

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Town Manager presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget is presented to the Select Board over the course of four Public Hearings in late February and early March. The Select Board adopts a final budget and specifies that certain appropriations are to be funded by particular revenues. This adopted budget is voted on by Town Meeting in May. Department Heads are limited to the departmental budgets as voted, and formal monthly budget reporting is employed as a management control device throughout the year. At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

Formal budgetary integration is employed as a management control device during the year for the General Fund.

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 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 with budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 11,333,172	\$ 11,332,625
Other financing sources/uses (GAAP basis)	<u>507,773</u>	<u>499,300</u>
Subtotal (GAAP Basis)	11,840,945	11,831,925
Adjust tax revenue to accrual basis	(62,465)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(462,401)
Add end of year appropriation carryforwards to expenditures	-	314,336
To reverse GAAP timing differences	(75,929)	(142,673)
To reverse the effect of non- budgeted State contributions for police and fire retirement	<u>(203,108)</u>	<u>(203,108)</u>
Budgetary basis	<u>\$ 11,499,443</u>	<u>\$ 11,338,079</u>

4. 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 to it. RSA 48:16 limits "deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus, exception that a Town with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank." Although the Town has an investment policy, it does not address custodial credit risk for deposits.

As of June 30, 2009, \$ 748,662 of the Town's bank balance of \$ 18,270,690 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name. The Town's deposit in repurchase agreements, \$ 10,890,343 of underlying securities are held by the investment's counterparty, not in the name of the Town.

5. 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. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reason-

able income, preserve capital, and, in general, avoid speculative investments.

Presented below is the actual rating as of year end for each investment of the Town (in thousands):

<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>A</u>
U.S. Treasury notes	\$ 165	N/A	\$ -	\$ 165	\$ -	\$ -
Corporate equities	628	N/A	628	-	-	-
Mutual funds	<u>296</u>	N/A	<u>296</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 1,089</u>		<u>\$ 924</u>	<u>\$ 165</u>	<u>\$ -</u>	<u>\$ -</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. Although the Town has an investment policy, it does not address custodial credit risk for investments.

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. Although the Town has an investment policy, it does not limit 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:

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>					
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	<u>N/A</u>
U.S. Treasury notes	\$ 165	\$ 101	\$ 64	\$ -	\$ -	\$ -
Total	<u>\$ 165</u>	<u>\$ 101</u>	<u>\$ 64</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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. Although the Town has an investment policy, it does not address foreign currency risk.

6. Taxes Receivable

The Town bills property taxes semi-annually, in May and November. Property tax revenues are recognized in the fiscal year for which taxes have been levied. Property taxes are due on July 1 and December 1. Delinquent accounts are charged 12% interest. In March of the next year, a lien is recorded on delinquent property at the Registry of Deeds. The Town purchases all the delinquent accounts by paying the delinquent balance, recording costs and accrued interest. The accounts that are lienied by the Town will be reclassified from property taxes receivable to unredeemed tax liens receivable. After this date, delinquent accounts will be charged interest at a rate of 18%. The Town annually budgets amounts (overlay for abatements) for property tax abatements and refunds.

Taxes receivable at June 30, 2009 consist of the following:

Real Estate			
2009			\$ 5,747,248
Unredeemed Taxes			
2008	\$ 70,925		
2007	12,611		
			<u>83,536</u>
Total			<u>\$ 5,830,784</u>

Taxes Collected for Others

The Town collects property taxes for the State of New Hampshire, the Dresden School District, the Hanover School District, and the County of Grafton. Payments to the other taxing units are normally made throughout the year. The ultimate responsibility for the collection of taxes rests with the Town.

7. Allowance for Doubtful Accounts

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

	<u>Governmental</u>
Property taxes	\$ 575,986
User fees	3,768

8. Intergovernmental Receivables/Payables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2009 and property taxes due to the Dresden School District and County of Grafton.

9. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2009 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ -	\$ 2,679,129
Special Revenue Funds	2,409,049	-
Capital Project Funds	228,552	-
Agency Funds	41,528	-
Total	\$ <u>2,679,129</u>	\$ <u>2,679,129</u>

10. Accounts Payable and Accrued Expenses

Accounts payable represent additional 2009 expenditures paid after June 30, 2009.

11. 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, 2009 receivable balances, except property taxes that are accrued for subsequent 60 day collections.

12. Capital Lease Obligations

The Town is the lessee of certain equipment under capital and operating leases expiring in various years through 2016. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2009:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2009	\$ 92,877	\$ 18,842
2010	92,875	13,227
2011	70,369	5,358
2012	61,790	603
2013	48,812	-
Thereafter	84,470	-
Total minimum lease payments	<u>451,193</u>	<u>38,030</u>
Less amounts representing interest	<u>(64,321)</u>	<u>-</u>
Present Value of Minimum Lease Payments	<u>\$ 386,872</u>	<u>\$ 38,030</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 currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of June 30, 2009</u>
1999 Parking Facility	01/15/29	4.00 - 4.90%	\$ 4,135,000
2002 Dispatch Console	06/14/12	3.50 - 4.25%	45,000
2003 Community Center	01/15/23	4.25 - 4.90%	1,050,000
2008 SRF Loan	12/01/27	3.49%	<u>2,815,757</u>
Total Governmental Activities:			<u>\$ 8,045,757</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2009 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 368,198	\$ 220,865	\$ 589,063
2011	373,198	211,120	584,318
2012	378,198	201,180	579,378
2013	373,198	191,036	564,234
2014	378,198	180,976	559,174
2015-2019	2,000,990	746,239	2,747,229
2020-2024	2,165,990	456,892	2,622,882
2025-2029	<u>2,007,787</u>	<u>158,998</u>	<u>2,166,785</u>
Total	<u>\$ 8,045,757</u>	<u>\$ 2,367,306</u>	<u>\$ 10,413,063</u>

The following governmental funds have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2009:

General fund	\$ 1,095,000
Parking fund	4,135,000
Sewer fund	<u>2,815,757</u>
Total	<u>\$ 8,045,757</u>

C. Notes Payable

The Town issued a notes with the Dresden School District as part of an option to have the first right of refusal over the Hanover High School Property. Notes payable outstanding is as follows:

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of June 30, 2009</u>
Dresden Hanover High Property Option	01/15/29	0.00%	\$ <u>1,500,000</u>
Total Governmental Activities:			\$ <u>1,500,000</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2009, the following changes occurred in long-term liabilities:

	Total Balance <u>7/1/08</u>	Additions	Reductions	Total Balance <u>6/30/09</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/09</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 8,408,955	\$ -	\$ (363,198)	\$ 8,045,757	\$ (368,198)	\$ 7,677,559
Notes payable	1,600,000	-	(100,000)	1,500,000	(100,000)	1,400,000
OPEB liability (see footnote 18)	-	186,684	-	186,684	-	186,684
Other:						
Accrued employee benefits	1,009,639	-	(139,379)	870,260	(87,026)	783,234
Capital lease payable	<u>387,236</u>	<u>70,929</u>	<u>(71,293)</u>	<u>386,872</u>	<u>(73,400)</u>	<u>313,472</u>
Totals	<u>\$ 11,405,830</u>	<u>\$ 257,613</u>	<u>\$ (673,870)</u>	<u>\$ 10,989,573</u>	<u>\$ (628,624)</u>	<u>\$ 10,360,949</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. Reserves and Designations of Fund Equity

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

The following types of reserves are reported at June 30, 2009:

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

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

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

16. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how undesignated fund balance is reported in

accordance with the budgetary basis for reporting for the State of New Hampshire for tax rate setting purposes. The major difference is the State of New Hampshire considers revenues in connection with property tax receivables to be available to liquidate liabilities when billed rather than received.

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

GAAP basis balance	\$ 931,371
Reserve for special purposes	(15,744)
Allowance for doubtful accounts	(143,959)
Accrued payroll	62,434
Deferred revenue	<u>(27,071)</u>
Tax Rate Setting Balance	<u>\$ 807,031</u>

17. Commitments and Contingencies

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

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

**18. Post-Employment Health Care and Life Insurance Benefits
Other Post-Employment Benefits**

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

A. Plan Description

The Town provides its eligible retirees, including in some cases their beneficiaries (as govern by RSA 100-A:50), the ability to purchase health, dental, and prescription insurance at the Town's group rates. Although the Town does not supplement the cost of these plans, GASB Statement 45 requires the Town to recognize the liability for the inclusion of any implicit rate subsidies afforded its retirees. This subsidy is generated as a result of the basic nature of insurance - one risk group subsidizes another to arrive at a blended premium, therefore current employees who are young and healthy subsidized the older retirees. As of June 30, 2009, there were 21 retiree subscribers, including eligible spouses and dependents, and 136 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 100% 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 2009 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, 2009, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2008.

Annual Required Contribution (ARC)	\$ 243,396
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	243,396
Contributions made	(56,712)
Increase in net OPEB obligation	186,684
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 186,684

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 243,396	23.3%	\$ 186,684

E. Funded Status and Funding Progress

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

Actuarial accrued liability (AAL)	\$ 2,092,115
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	2,092,115
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 7,373,216
UAAL as a percentage of covered payroll	28.4%

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

F. Actuarial Methods and Assumptions

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

In the July 1, 2008 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 9% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 2.5%.

19. Retirement System

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, (as amended by GASB 50) with respect to the employees' retirement funds.

A. Plan Description

Full-time employees participate in the State of New Hampshire Retirement System (the System), a multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State of New Hampshire are eligible and required to participate in the system. Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to *Group I*. Police officers and firefighters belong to *Group II*. All assets are held in a single trust and are avail-

able to each group, funding policies, vesting requirements, contribution requirements and plan assets available to pay benefits are disclosed in the System's annual report available from the New Hampshire Retirement System located at 4 Chenell Drive, Concord, New Hampshire 03301-8509.

B. Funding Policy

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 5% for employees and 9.3% for police and fire. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and is 11.84% for police, 15.92% for fire, and 8.74% for all other covered employees. The Town's contributions to the System for the years ended June 30, 2009, 2008, and 2007 were \$ 761,306, \$ 757,436 and \$ 594,901, respectively, which were equal to its annual required contributions for each of these years.

The payroll for employees covered by the System for the year ended June 30, 2009, was \$ 7,373,216. Contribution requirements for the year ended June 30, 2009, were as follows:

State of New Hampshire	\$ 203,108
Town	761,306
Employees' contributions	<u>492,046</u>
Total	<u>\$ 1,456,460</u>

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. Joint Venture

Hanover Water Works Company (the Company) was incorporated in 1893 to provide water service to the Town of Hanover, New Hampshire. The Company's common stock is owned by the Trustees of Dartmouth College (52.8%) and the Town of Hanover (47.2%). The Company is managed by the Town of Hanover under a management contract. The Company's annual financial statements are available from the Hanover Water Works Company, located at 194 Lebanon Street, Route 120, Hanover, New Hampshire 03755.

22. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2009, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/08 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/08 (as restated)
Nonmajor funds	\$ 4,617,093	\$ 397,103	\$ 5,014,196
Sewer Facility Upgrade	<u>397,103</u>	<u>(397,103)</u>	<u>-</u>
Total	<u>\$ 5,014,196</u>	<u>\$ -</u>	<u>\$ 5,014,196</u>

23. Beginning Net Assets Restatement

The beginning (July 1, 2008) fund balances of the Town have been restated as follows:

Government-Wide Financial Statements:

	<u>Governmental</u>
As previously reported	\$ (4,769,791)
To record accounts receivable for the State subsidy of the SRF Loan	<u>582,126</u>
As restated	<u>\$ (4,187,665)</u>

TOWN OF HANOVER, NEW HAMPSHIRE
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/08	\$ -	\$ 2,092,115	\$ 2,092,115	0.0%	\$ 7,373,216	28%

See Independent Auditors' Report.