

TOWN OF HOLDERNESS
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

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PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Selectmen
Town of Holderness
Holderness, New Hampshire

We have audited the accompanying financial statements of the governmental activities, major general fund and the aggregate remaining fund information of the Town of Holderness as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Holderness' management. Our responsibility is to express opinions 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 15 to the financial statements, management has not recorded the long-term costs of retirement health care and obligations for other postemployment benefits in governmental activities. Accounting principles generally accepted in the United States of America require that those costs be recorded, which would increase the liabilities and expenses of the governmental activities. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the government-wide 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 Holderness as of June 30, 2011, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major general fund and the aggregate remaining fund information of the Town of Holderness as of June 30, 2011, and the respective changes in financial position thereof for the year then ended and the respective budgetary comparison for the general fund in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3 through 8) and the budgetary comparison information (page 15) 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 sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Holderness' basic financial statements. The combining and individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of

Town of Holderness
Independent Auditors Report

the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial schedules themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

January 23, 2012

Plodzik & Sanderson
Professional Association

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2011

Presented herewith please find the Management Discussion & Analysis Report for the Town of Holderness for the year ending June 30, 2011. The responsibility for accuracy of the data, the completeness, and fairness of this documentation (including all disclosures) rests with management. To the best of our knowledge and belief, the data contained herein is accurate in all material respects. This report and its content have been designed to fairly present the Town's financial position, including the result of operations of all the funds of the Town. All the disclosures necessary to enable and to assist the reader in acquiring an accurate understanding of the Town's financial activities have been included.

The Town's management is responsible for establishing accounting and internal control structures designed to ensure that the physical, data, information, intellectual, and human resource assets of the Town are protected from loss, theft, and misuse, and to ensure that adequate accounting information is maintained and reported in conformity with generally accepted accounting principles (GAAP). Management also strives to ensure that these assets are put to good and effective use. The internal control structure is designed to provide reasonable assurances that these objectives are attained.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Town of Holderness using the integrated approach as prescribed by GASB Statement No. 34.

This discussion and analysis is intended to serve as an introduction to the Town of Holderness's financial statements. The basic financial statements comprise three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to most private-sector companies.

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

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain the control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and to demonstrate compliance with finance-related legal requirements. The Town maintains two fund types: governmental and fiduciary funds.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2011

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 expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town'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, our readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental activities statement of net assets and statement of activities.

The Town maintains three individual government funds. Information is presented separately in the government fund balance sheet and the statement of revenues, expenditures, and changes in fund balances for the General Fund, and the combined two nonmajor funds.

The Town adopts an annual appropriation budget for its governmental funds. A budgetary comparison has been provided for the General Fund to demonstrate compliance with this budget.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the Town. 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.

Notes to the Basic 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.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2011

Government-wide Financial Analysis

Statement of Net Assets

Net assets of the Town of Holderness as of June 30, 2010 and 2011 are as follows:

	<u>2010</u>	<u>2011</u>
Current and other assets:		
Capital assets	\$ 3,774,070	\$ 4,052,059
Other assets	<u>5,981,915</u>	<u>6,157,518</u>
Total assets	<u>\$ 9,755,985</u>	<u>\$ 10,209,577</u>
Long term and other liabilities:		
General obligation debt payable	\$ 120,000	\$ 410,000
Other liabilities	<u>4,543,387</u>	<u>4,562,689</u>
Total liabilities	<u>\$ 4,663,387</u>	<u>\$ 4,972,689</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 3,654,070	\$ 3,642,059
Restricted	493,349	4,750
Unrestricted	<u>945,179</u>	<u>1,590,079</u>
Total net assets	<u><u>\$ 5,092,598</u></u>	<u><u>\$ 5,236,888</u></u>

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2011

Statement of Activities

Changes in net assets for the year ending June 30, 2010 and 2011 are as follows:

	<u>2010</u>	<u>2011</u>
Program revenues:		
Charges for services	\$ 166,307	\$ 159,736
Operating grants and contributions	88,013	86,352
Capital grants and contributions	10,000	-
Total program revenues	<u>264,320</u>	<u>246,088</u>
General revenues:		
Taxes	1,626,154	1,631,115
Licenses and permits	386,234	373,561
Intergovernmental revenue	89,467	124,817
Miscellaneous	134,679	89,803
Total general revenues	2,236,534	2,219,296
Total revenues	2,500,854	2,465,384
Program expenses:		
General government	715,855	674,581
Public safety	633,438	640,952
Highways and streets	404,150	295,568
Health and welfare	51,835	37,841
Sanitation	163,583	157,451
Culture and recreation	182,291	165,584
Conservation	881	850
Interest and fiscal charges	7,299	3,737
Non capitalized capital outlay	-	344,530
Total expenses	<u>2,159,332</u>	<u>2,321,094</u>
Change in net assets	341,522	144,290
Net assets - beginning of year	4,751,076	5,092,598
Net assets - ending of year	<u>\$5,092,598</u>	<u>\$5,236,888</u>

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2011

Town of Holderness Activities

As shown in the above statement the Town experienced an increase in financial position of \$144,290 on the full accrual basis of accounting. This increase is primarily due to the Town capitalizing over \$475,000 in new capital assets.

The General fund shows total fund balances of \$1,424,954, this is an increase of \$130,300 over the prior year.

Capital Assets

The Town of Holderness considers a capital asset to be an asset whose costs exceed or equal \$10,000 and has useful life of greater than one year. Assets are depreciated using the straight-line method over the course of their useful life. During the year the Town put into service \$477,197 and retired \$20,114 of capital assets.

A capital replacement and maintenance plan has been established for all town departments and is reviewed and adjusted annually as necessary. The plan is utilized in two ways: 1) To adequately evaluate the replacement needs on a town-wide basis in order to not "overload" any one year with multiple purchases, and 2) To adequately fund reserve accounts for capital purchases and/or determine future debt needs if reserves are not sufficient for all purchases.

Long-Term Obligations

During the year ending June 30, 2011 the Town increased its general obligation debt by \$290,000. It retired \$60,000 on the Public Safety Building issue, and issued an additional \$350,000 for the Transfer Station.

One of management's priorities is to limit borrowing whenever possible by annually funding capital reserve accounts. With the retirement of the long-term bond for the construction of the public safety building in this fiscal year, the town's new total indebtedness is \$350,000 borrowed for the reconstruction of the improvements to the transfer station. The next possible capital purchase that will require some long-term indebtedness will be a new pumper fire truck scheduled for FY 2015.

Economic Factors

It is an overall goal of the Board and Administrator to maintain as best as possible a stable tax rate for the town and avoid rate "spiking" from year to year. One of the key factors to maintaining a stable tax rate is keeping a healthy fund balance that can be used when needed to minimize significant tax rate increases. It is the board's opinion that a healthy fund balance for the Town of Holderness is between \$650,000 and \$950,000 or within the range of 6-8% of the total appropriations for the town, school, state education tax, and county combined. Our budgetary fund balance for the year and that which is reported to the State of NH DRA was \$947,758. This differs from Exhibit C-1, unassigned fund balance by necessary journal entries to comply with generally accepted accounting principles. These amounts are within the range set by the Board.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2011

The town's management philosophy regarding the development and expenditure of the operations and capital budgets has remained the same over the past several years which is zero base budget building, funding operations to a level that, at a minimum, maintains the town's operations at the previous year's level and, when at all possible, improve operations going forward in a positive direction.

Management's concerns for the future include: The effect of the continuing poor economy on Holderness' property values. The key to affordable tax rates in Holderness is the significant value of lake front property. Although the impact on Squam Lake waterfront properties has been minimal so far compared to other vacation property communities in NH in this poor economy, if that was to change then a significant change in the town financial management would have to occur including reducing town services and possible work staff as well.

Reducing energy use and conservation has and will continue to be a priority for management. Over the past few years many energy conservation improvements have been made to several town buildings. These efforts will continue in the future as methods and opportunities allow.

State reduction in services and funding is a major concern in the short and long-term as reduced state services put additional burdens on local government to provide for those who are in need and reduced state funding directly effects the town's bottom line.

Education funding is the most important concern for management as the cost of education continues to rise at an average rate of 4-5% per year. The return of "donor towns" is an issue that comes and goes each year and until some permanent change is made to eliminate the possibility completely we will remain concerned.

Health care and retirement benefits continue to have significant impacts on operating budgets. Employer retirement rates and health insurance premiums continue to rise significantly each year. Management has taken an aggressive approach to try and minimize the impact of major increases in health insurance rates by including some "self insurance" in our employee benefits program. Health insurance rates for FY12 have increased approximately 20% which has significantly impacted the FY12 operating budget. Also affecting the proposed ABY13 budget is an unusually high amount of claims against the health insurance expendable trust due to employees exceeding their deductibles.

Contacting the Town of Holderness's Financial Management

This financial report is to provide our citizens and creditors with a general overview of the Town's finances and to show a measure of accountability for the money it receives. If you have any questions about this report or need to get additional information, contact the Board of Selectmen at PO Box 203, Holderness, NH 03245, telephone number 603-968-3537.

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Statement of Net Assets
June 30, 2011

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 3,997,006
Investments	811,957
Other receivables, net of allowances for uncollectible	1,343,417
Elderly liens	19,135
Reserve for elderly liens	(19,135)
Tax deeded property held for resale	5,138
Capital assets, not being depreciated:	
Land	1,296,888
Construction in progress	302,440
Capital assets, net of accumulated depreciation:	
Buildings and building improvements	873,854
Infrastructure	996,500
Land improvements	108,530
Machinery, equipment, and vehicles	473,847
Total assets	<u>10,209,577</u>
LIABILITIES	
Accounts payable	11,449
Accrued salaries and benefits	6,338
Contract payable	45,022
Intergovernmental payable	3,600,549
Accrued interest payable	1,207
Unearned revenue	898,124
Noncurrent obligations:	
Due within one year:	
Bonds	60,000
Due in more than one year:	
Bonds	350,000
Total liabilities	<u>4,972,689</u>
NET ASSETS	
Invested in capital assets, net of related debt	3,642,059
Restricted for perpetual care	4,750
Unrestricted	1,590,079
Total net assets	<u><u>\$ 5,236,888</u></u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT B
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended June 30, 2011

		Program Revenues		Net (Expense)
		Charges	Operating	Revenue and
		for	Grants and	Change in
	Expenses	Services	Contributions	Net Assets
Governmental activities:				
General government	\$ 674,581	\$ 9,980	\$ 21	\$ (664,580)
Public safety	640,952	65,324	15,122	(560,506)
Highways and streets	295,568	-	71,209	(224,359)
Sanitation	157,451	47,850	-	(109,601)
Health	25,825	-	-	(25,825)
Welfare	12,016	-	-	(12,016)
Culture and recreation	165,584	36,582	-	(129,002)
Conservation	850	-	-	(850)
Interest on long-term debt	3,737	-	-	(3,737)
Capital outlay	344,530	-	-	(344,530)
Total governmental activities	<u>\$ 2,321,094</u>	<u>\$ 159,736</u>	<u>\$ 86,352</u>	<u>(2,075,006)</u>
General revenues:				
Taxes:				
Property				1,599,804
Other				31,311
Motor vehicle permit fees				345,589
Licenses and other fees				27,972
Grants and contributions not restricted to specific programs				124,817
Miscellaneous				89,803
Total general revenues				<u>2,219,296</u>
Change in net assets				144,290
Net assets, beginning				<u>5,092,598</u>
Net assets, ending				<u>\$ 5,236,888</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-1
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
June 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,975,232	\$ 17,954	\$ 3,993,186
Investments	250,543	14,020	264,563
Receivables, net of allowance for uncollectible:			
Taxes	1,338,986	-	1,338,986
Accounts	4,431	-	4,431
Voluntary tax liens	19,135	-	19,135
Voluntary tax liens reserved until collected	(19,135)	-	(19,135)
Tax deeded property (subject to resale)	5,138	-	5,138
Cash - restricted	3,820	-	3,820
Investments - restricted	547,394	-	547,394
Total assets	<u>\$ 6,125,544</u>	<u>\$ 31,974</u>	<u>\$ 6,157,518</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 11,449	\$ -	\$ 11,449
Accrued salaries and benefits	6,338	-	6,338
Contract payable	45,022	-	45,022
Intergovernmental payable	3,600,549	-	3,600,549
Deferred revenue	1,037,232	-	1,037,232
Total liabilities	<u>4,700,590</u>	<u>-</u>	<u>4,700,590</u>
Fund balances:			
Nonspendable:			
Tax deeded property	5,138	-	5,138
Permanent fund (principal balance)	-	4,750	4,750
Committed:			
Expendable trust funds	525,763	-	525,763
Assigned:			
Encumbrances	90,541	-	90,541
Police detail	-	17,954	17,954
Permanent fund (income balance)	-	9,270	9,270
Unassigned	803,512	-	803,512
Total fund balances	<u>1,424,954</u>	<u>31,974</u>	<u>1,456,928</u>
Total liabilities and fund balances	<u>\$ 6,125,544</u>	<u>\$ 31,974</u>	<u>\$ 6,157,518</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-2
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets
June 30, 2011

Total fund balances of governmental funds (Exhibit C-1)		\$ 1,456,928
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.		
Cost	\$ 5,946,897	
Less accumulated depreciation	<u>(1,894,838)</u>	
		4,052,059
Property taxes are recognized on an accrual basis on the statement of net assets, not the modified accrual basis.		139,108
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(1,207)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Bonds payable		<u>(410,000)</u>
Total net assets of governmental activities (Exhibit A)		<u><u>\$ 5,236,888</u></u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-3
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 1,638,131	\$ -	\$ 1,638,131
Licenses and permits	373,561	-	373,561
Intergovernmental	212,531	-	212,531
Charges for services	148,611	11,125	159,736
Miscellaneous	58,188	21	58,209
Total revenues	<u>2,431,022</u>	<u>11,146</u>	<u>2,442,168</u>
Expenditures:			
Current:			
General government	674,711	-	674,711
Public safety	608,690	9,799	618,489
Highways and streets	280,770	-	280,770
Sanitation	157,451	-	157,451
Health	25,825	-	25,825
Welfare	12,016	-	12,016
Culture and recreation	164,775	-	164,775
Conservation	850	-	850
Debt service:			
Principal	60,000	-	60,000
Interest	5,175	-	5,175
Capital outlay	660,459	-	660,459
Total expenditures	<u>2,650,722</u>	<u>9,799</u>	<u>2,660,521</u>
Excess (deficiency) of revenues over (under) expenditures	(219,700)	1,347	(218,353)
Other financing sources:			
Proceeds of long term debt	<u>350,000</u>	<u>-</u>	<u>350,000</u>
Net change in fund balances	130,300	1,347	131,647
Fund balances, beginning, as restated (see Note 13)	<u>1,294,654</u>	<u>30,627</u>	<u>1,325,281</u>
Fund balances, ending	<u>\$ 1,424,954</u>	<u>\$ 31,974</u>	<u>\$ 1,456,928</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-4
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011

Net change in fund balances of governmental funds (Exhibit C-3)	\$ 131,647
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.	
Capitalized capital outlay	\$ 457,083
Depreciation expense	<u>(179,094)</u>
	277,989
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.	
Proceeds of bond principal	\$ (350,000)
Repayment of bond principal	<u>60,000</u>
	(290,000)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.	23,216
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.	
Decrease in accrued interest expense	<u>1,438</u>
Changes in net assets of governmental activities (Exhibit B)	<u><u>\$ 144,290</u></u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT D
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2011

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes	\$ 1,733,837	\$ 1,638,131	\$ (95,706)
Licenses and permits	367,000	373,561	6,561
Intergovernmental	160,163	196,026	35,863
Charges for services	111,200	148,611	37,411
Miscellaneous	54,700	57,382	2,682
Total revenues	<u>2,426,900</u>	<u>2,413,711</u>	<u>(13,189)</u>
Expenditures:			
Current:			
General government	716,765	686,686	30,079
Public safety	579,900	592,435	(12,535)
Highways and streets	293,100	290,770	2,330
Sanitation	207,300	148,551	58,749
Health	27,125	25,825	1,300
Welfare	20,650	12,016	8,634
Culture and recreation	175,485	165,017	10,468
Economic development	2,400	850	1,550
Debt service:			
Principal	60,000	60,000	-
Interest	5,175	5,175	-
Capital outlay	656,150	714,110	(57,960)
Total expenditures	<u>2,744,050</u>	<u>2,701,435</u>	<u>42,615</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(317,150)</u>	<u>(287,724)</u>	<u>29,426</u>
Other financing sources (uses):			
Transfers in	293,650	289,898	(3,752)
Proceeds of long term debt	350,000	350,000	-
Transfers out	(329,000)	(341,500)	(12,500)
Total other financing sources and uses	<u>314,650</u>	<u>298,398</u>	<u>(16,252)</u>
Net change in fund balances	<u>\$ (2,500)</u>	10,674	<u>\$ 13,174</u>
Unreserved fund balance, beginning		792,838	
Unreserved fund balance, ending		<u>\$ 803,512</u>	

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2011

	<u>Agency</u>
ASSETS	
Investments	\$ 323,933
LIABILITIES	<u>-</u>
NET ASSETS	
Held in trust for special purposes	<u><u>\$ 323,933</u></u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF HOLDERNESS
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

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TOWN OF HOLDERNESS
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A Reporting Entity

The Town of Holderness is a municipal corporation governed by an elected 5-member Board of Selectmen. The reporting entity is comprised of the primary government and any other organizations (*component units*) that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the Town is financially accountable. The Town is financially accountable for an organization if the Town appoints a voting majority of the organization's governing board, and (1) the Town is able to significantly influence the programs or services performed or provided by the organizations; or (2) the Town is legally entitled to or can otherwise access the organization's resources; (3) the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Town is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the Town's financial reporting entity.

The more significant of the Town's accounting policies are described below.

1-B Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements display information about the Town as a whole. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. The effect of interfund activity has been eliminated from these statements.

The Statement of Net Assets presents information on all of the entity's assets and liabilities, with the difference between the two presented as net assets. Net assets are reported as one of three categories; invested in capital assets, net of related debt; restricted; or unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different functions of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Pension benefit; property and liability insurance; claims and judgments; and state assessments and charges have been allocated to major functions in order to present a more accurate and complete picture of the cost of Town services. Program revenues include (1) charges to customers or applicants for goods received, services rendered or privileges provided; and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Financial statements of the Town are organized into funds, each of which is considered to be a separate accounting entity. Each fund has a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized as major funds or nonmajor funds within the governmental statements. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- (a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10% of the corresponding total for all funds of that category or type;
- (b) Total assets, liabilities, revenues or expenditures of the individual governmental fund are at least 5% of the corresponding total for all governmental funds combined; and
- (c) In addition, any other governmental fund that the Town of believes is particularly important to the financial statement users may be reported as a major fund.

Governmental Activities – Governmental funds are identified as general, special revenue, and permanent funds, based upon the following guidelines:

General Fund – is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

TOWN OF HOLDERNESS
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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Special Revenue Funds – are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Permanent Funds – are used to account for resources legally held in trust. All resources of the fund, including earnings on invested resources, may be used to support the Town.

Fiduciary Fund Types – These funds account for resources held by the Town for the benefit of other parties and include the agency fund. Fiduciary fund types are not part of the reporting entity in the government-wide financial statements, but are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These funds are as follows:

Agency Funds – are used to account for resources held by the Town in a purely custodial capacity, for individuals and/or private organizations.

Major Funds – The Town reports the following major governmental fund:

General Fund – all general revenues and other receipts that are not allocated by law or contracted agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other fund.

Nonmajor Funds – The Town also reports two nonmajor governmental funds.

1-C Measurement Focus

Government-wide and Fiduciary Fund Financial Statements – The government-wide and fiduciary fund financial statements, except for agency funds which have no measurement focus, are reported using the economic resources measurement focus. Under this concept, revenues and expenses are matched using the accrual basis of accounting. 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental 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 susceptible to accrual, that is, when they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current period. District assessment, grants and contracts, and interest associated with the current period are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Town. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenues – Exchange Transactions – Revenue resulting from exchange transactions in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On the modified accrual basis revenue is recorded when the exchange takes place in the fiscal year in which the resources are measurable and become available.

Revenues – Nonexchange Transactions – Nonexchange transactions, in which the Town receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all grantor imposed eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Town must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

TOWN OF HOLDERNESS
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

1-D Cash and Cash Equivalents

The Town considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts.

New Hampshire statutes require that the Town treasurer have custody of all money belonging to the Town and pay out the same only upon orders of the Board of Selectmen. The treasurer shall deposit all such monies in participation units in the public deposit investment pool established pursuant to NH RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

1-E Restricted Assets

Certain cash and investment accounts are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is legally restricted for specified purposes; laws and/or enabling legislation. Also, certain resources have been set aside to fund capital asset additions or replacements.

1-F Investments

State statutes place certain limitations on the nature of deposits and investments available as follows:

New Hampshire law authorizes the Town to invest in the following type of obligations:

- Obligations of the United States government;
- The public deposit investment pool established pursuant to RSA 383:22;
- Savings bank deposits; and
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the State treasurer.

Any person who directly or indirectly receives any such funds or monies for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the Town of Holderness. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

1-G Receivables

Receivables in the government-wide and governmental fund financial statements represent amounts due to the Town at June 30, recorded as revenue, which will be collected in the future and consist primarily of accounts and intergovernmental receivables.

1-H Interfund Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "interfund receivables and payables." Interfund receivables and payables between funds are eliminated in the statement of net assets.

1-I Capital Assets

General capital assets are those assets of a capital nature which the Town owns. All capital assets are capitalized at cost (or estimated at historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$5,000 and more than one year of estimated useful life. Improvements to capital assets are capitalized; the costs of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset's life are expensed.

TOWN OF HOLDERNESS
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. All reported capital assets are depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Years</u>
Land improvements	15-30
Buildings and building improvements	15-40
Infrastructure	20-40
Machinery, equipment, and vehicles	5-15
Software	5

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets are not capitalized and related depreciation is not reported in the fund financial statements.

1-J Allowance for Uncollectible Accounts

An allowance for uncollectible tax accounts has been established and recorded for by management where collectability is in doubt.

1-K Deferred/Unearned Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. On the government-wide Statement of Net Assets, deferred revenue is classified as unearned revenue.

1-L Compensated Absences

The Town's policy allows certain employees to earn varying amounts of vacation and sick pay based on the employee's length of employment. Upon retirement or termination of employment, employees are paid in full for any accrued leave earned as set forth by personnel policy.

1-M Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide statements.

1-N Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. Claims and judgments are recorded in the government-wide financial statements as expense when the related liabilities are incurred. There were no significant claims or judgments at year-end.

1-O Equity/Fund Balance Classifications

Government-wide Statements – Equity is classified as net assets and displayed in three components:

- a) *Invested in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested capital assets, net of related debt.
- b) *Restricted net assets* – Consists of net assets with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

TOWN OF HOLDERNESS
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

- c) *Unrestricted net assets* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Governmental Fund Balances Classification – The Town of Holderness has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for this fiscal year ending June 30, 2011. GASB Statement No. 54 establishes fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town of is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) are legally or contractually required to be maintained intact. These items were previously reported as reserved for special purposes.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. These items were previously reported as reserved for special purposes or unreserved-undesignated or unreserved-designated for special purposes.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the legislative body (Town Meeting). These amounts cannot be used for any other purpose unless the legislative body (Town Meeting) removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. Legislative body votes relative to the use of unassigned fund balance at year-end, in addition to non-lapsing appropriations, are included in this classification. Expendable trust funds are restricted by State statute and are legally segregated for funding specific items of expenditure and reported as committed fund balance with assets restricted by laws and/or enabling legislation.

Assigned – This classification includes amounts that are constrained by the Town’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Selectmen or through the Board delegating this responsibility to the Town Administrator through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund. The Town also has assigned funds consisting of reserve for encumbrances in the general fund at year-end. This amount was previously reported as reserved for encumbrances.

Unassigned – This classification includes the residual fund balance for the general fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts. This amount was previously reported as unreserved-undesignated.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 16). As discussed in Note C-1, restricted funds are used first as appropriate, followed by committed resources, and then assigned resources, as appropriate opportunities arise. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

1-P Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans). Interfund receivables and payables between funds are eliminated in the statement of net assets.

Interfund Transfers – Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making the transfers and other financing sources in the funds receiving the transfers. In the government-wide financial statements, all interfund transfers between individual governmental funds have been eliminated.

TOWN OF HOLDERNESS
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

1-Q Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates and the differences could be material.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Town's operations. At its annual meeting, the Town of adopts a budget for the current year for the general fund. Except as reconciled below, the budget was adopted on a basis consistent with US generally accepted accounting principles.

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at year-end unless encumbered.

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures, and are therefore, reported as part of the assigned fund balance at year-end, and are carried forward to supplement appropriations of the subsequent year.

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. In the fiscal year 2011, \$2,500 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

The following reconciles the general fund budgetary basis to the GAAP basis:

Revenues and other financing sources:

Per Exhibit D (budgetary basis)	\$ 3,053,609
Adjustment:	
Basis difference:	
On-behalf retirement contributions made by the State of New Hampshire recognized as revenue on the GAAP basis, but not on the budgetary basis	15,122
GASB Statement No. 54	
To record expendable trust revenue earned during the year	2,189
To eliminate transfers between the general fund and the expendable trust fund	(289,898)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,781,022</u>

Expenditures and other financing uses:

Per Exhibit D (budgetary basis)	\$ 3,042,935
Adjustment:	
Basis differences:	
Encumbrances, beginning	24,706
Encumbrances, ending	(90,541)
On-behalf retirement contributions made by the State of New Hampshire recognized as an expenditure on the GAAP basis, but not on the budgetary basis	15,122
GASB Statement No. 54	
To eliminate transfers between the general fund and expendable trust fund	(341,500)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,650,722</u>

TOWN OF HOLDERNESS
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

DETAILED NOTES ON ALL FUNDS

NOTE 3 – RESTRICTED ASSETS

Certain Town cash and investments are restricted for the following purposes:

Cash and cash equivalents:	
Expendable trust funds	\$ 3,820
Investments:	
Expendable trust funds	547,394
Total restricted assets	<u>\$ 551,214</u>

NOTE 4 – TAXES RECEIVABLE

The property tax year is from April 1 to March 31 and all property taxes are assessed on the inventory taken in April of that year. The net assessed valuation as of April 1, 2010, upon which the 2010 property tax levy was based is:

For the New Hampshire education tax	\$ 679,749,805
For all other taxes	\$ 683,110,905

The Town subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Under this method, tax bills are due on or around July 1 and December 1 of each year, with interest accruing at a rate of 12% on bills outstanding after the due date. The first billing is considered an estimate only and is one half of the previous year's tax billing. The remaining balance of taxes due is billed in the fall after the New Hampshire Department of Revenue Administration has calculated and approved the Town's tax rate for the fiscal year. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within 60 days of year-end).

In connection with the setting of the tax rate, Town officials with the approval of the Department of Revenue Administration, establish and raise through taxation an amount for abatements and refunds of property taxes, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any tax allowance at year-end. The property taxes collected by the Town include taxes levied for the State of New Hampshire, Holderness School District, Pemi-Baker Regional School District, and Grafton County, which are remitted as required by law. The ultimate responsibility for the collection of taxes rests with the Town.

The tax rates and amounts assessed for the year ended June 30, 2011 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	2.59	\$ 1,765,492
School portion:		
State of New Hampshire	2.42	1,645,203
Local	6.75	4,612,702
County portion	1.35	924,054
Total		<u>\$ 8,947,451</u>

During the current fiscal year, the tax collector executed a lien on April 29, 2011 for all uncollected 2010 property taxes.

Taxes receivable at June 30, 2011, are as follows:

Property:	
Levy of 2011	\$ 1,224,895
Unredeemed (under tax lien):	
Levy of 2010	69,814
Levy of 2009	46,562
Levies of 2008 and prior	1,147
Yield	1,568
Less: allowance for estimated uncollectible taxes	(5,000)
Net taxes receivable	<u>\$ 1,338,986</u>

TOWN OF HOLDERNESS
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

NOTE 5 – OTHER RECEIVABLES

Receivables at June 30, 2011, consisted of billings for police details, sewer charges, and rents. Receivables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 consisted of the following:

	Balance, beginning	Additions	Disposals	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 1,296,888	\$ -	\$ -	\$ 1,296,888
Construction in progress	-	302,440	-	302,440
Total capital assets not being depreciated	1,296,888	302,440	-	1,599,328
Being depreciated:				
Buildings and building improvements	1,316,587	14,553	-	1,331,140
Infrastructure	1,166,111	78,303	-	1,244,414
Land improvements	154,422	-	-	154,422
Machinery, equipment, and vehicles	1,523,056	81,901	(20,114)	1,584,843
Software	32,750	-	-	32,750
Total capital assets being depreciated	4,192,926	174,757	(20,114)	4,347,569
Total all capital assets	5,489,814	477,197	(20,114)	5,946,897
Less accumulated depreciation:				
Buildings and building improvements	(423,783)	(33,503)	-	(457,286)
Infrastructure	(189,313)	(58,601)	-	(247,914)
Land improvements	(38,171)	(7,721)	-	(45,892)
Machinery, equipment, and vehicles	(1,031,727)	(99,383)	20,114	(1,110,996)
Software	(32,750)	-	-	(32,750)
Total accumulated depreciation	(1,715,744)	(199,208)	20,114	(1,894,838)
Net book value, capital assets being depreciated	2,477,182	(24,451)	-	2,452,731
Net book value, all governmental activities capital assets	\$ 3,774,070	\$ 277,989	\$ -	\$ 4,052,059

Depreciation expense was charged to functions of the Town based on their usage of the related assets. The amounts allocated to each function are as follows:

General government	\$ 14,423
Public safety	48,276
Highways and streets	133,575
Sanitation	2,125
Culture and recreation	809
Total depreciation expense	<u>\$ 199,208</u>

NOTE 7 – INTERFUND BALANCES

Interfund receivable and payable balances consisting of overdrafts in pooled cash and budgetary transfers at June 30, 2011, are as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor	<u>\$ 17,594</u>

TOWN OF HOLDERNESS
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

NOTE 8 – INTERGOVERNMENTAL PAYABLES

The \$3,600,549 due to other governments represents the portion of the most recent tax commitment that is due to the Holderness School District, Pemi-Baker School District, and Grafton County.

NOTE 9 – DEFERRED/UNEARNED REVENUE

Deferred/unearned revenue of \$1,037,232 at June 30, 2011 consists of the following:

Property tax revenue collected in advance of the 2011 property tax warrant being issued	\$ 1,025,783
Sewer charges collected in advance of services	149
Miscellaneous contributions received in advance of related expenditures	11,300
Total deferred/unearned revenue	<u>\$ 1,037,232</u>

NOTE 10 – LONG-TERM LIABILITIES

Changes in the Town's long-term obligations consisted of the following for the year ended June 30, 2011:

	General Obligation Bonds Payable
Balance, beginning	\$ 120,000
Additions	350,000
Reductions	(60,000)
Balance, ending	<u>\$ 410,000</u>

Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at June 30, 2011	Current Portion
General obligation bonds payable:						
Public safety building	\$ 950,000	1996	2011	5.625-5.75	\$ 60,000	\$ 60,000
Transfer station	\$ 350,000	2011	2017	2.37	350,000	-
					<u>\$ 410,000</u>	<u>\$ 60,000</u>

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2011, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 60,000	\$ 1,725	\$ 61,725
2013	58,333	8,502	66,835
2014	58,333	6,913	65,246
2015	58,333	5,530	63,863
2016	58,333	4,147	62,480
2017-2018	116,668	4,148	120,816
Totals	<u>\$ 410,000</u>	<u>\$ 30,965</u>	<u>\$ 440,965</u>

All debt is general obligation debt of the Town, which is backed by its full faith and credit, and will be repaid from general governmental revenues.

TOWN OF HOLDERNESS
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

NOTE 11 – COMMITMENTS/ENCUMBRANCES

The Town has encumbrances outstanding for the general fund of \$90,541, encumbrances were charged to related functions as follows:

General government:	
Financial administration	\$ 1,132
Revaluation of property	10,000
General government buildings	2,200
Cemeteries	1,000
Public safety:	
Police	1,351
Fire	5,585
Highways and streets	10,000
Culture and recreation:	
Patriot Purposes	242
Capital outlay:	
Buildings	13,531
Improvements other than buildings	45,500
Total	<u>\$ 90,541</u>

NOTE 12 – GOVERNMENTAL ACTIVITIES NET ASSETS

Governmental activities net assets reported on the government-wide Statement of Net Assets at June 30, 2011 include the following:

Invested in capital assets, net of related debt:	
Capital assets, net of accumulated depreciation	\$ 4,052,059
Less:	
General obligation bonds payable, net	(410,000)
Total invested in capital assets, net of related debt	<u>3,642,059</u>
Restricted for perpetual care	4,750
Unrestricted	<u>1,590,079</u>
Total net assets	<u>\$ 5,236,888</u>

NOTE 13 – PRIOR PERIOD ADJUSTMENT

Fund equity at July 1, 2010 was restated to record expendable trust fund previously reported as a special revenue fund that under GASB Statement No. 54 is part of the general fund, as follows:

	General Fund	Other Governmental Funds	Total
Adjustment	\$ 471,972	\$ (471,972)	\$ 471,972
Fund balance, as previously reported	822,682	471,972	822,682
Fund balance, as restated	<u>\$ 1,294,654</u>	<u>\$ -</u>	<u>\$ 1,294,654</u>

NOTE 14 – EMPLOYEE RETIREMENT PLAN

The Town of Holderness participates in the New Hampshire Retirement System (the System) which is the administrator of a cost-sharing 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. Provision for benefits and contributions are established and can be amended by the New Hampshire Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

TOWN OF HOLDERNESS
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees except police officers and firefighters are required to contribute 5% of earnable compensation. Police officers and firefighters are required to contribute 9.3% of gross earnings. For the fiscal year 2011, the Town contributed 14.63% for police, 18.52% for fire, and 9.16% for other employees. The contribution requirements for the fiscal years 2009, 2010, and 2011 were \$91,424, \$93,525, and \$76,912, respectively, which were paid in full in each year.

The State of New Hampshire funds 25% of the total employer normal contribution rate for teachers employed by the Town. This amount, \$15,122, is reported as an "on-behalf payment," as an expenditure and revenue on the governmental funds statement of revenues, expenditures, and changes in fund balances, and as an expense and revenue on the statement of activities.

NOTE 15 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to pension benefits described in the preceding note, the Town provides postemployment benefit options for health care and dental insurance to eligible retirees. The benefits are provided in accordance with the Town's personnel policy. The criteria to determine eligibility include: years of service, employee age, and whether the employee has vested in the respective retirement plan. Eligible employees are required to pay 100% of the cost of the plan.

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45, which was effective for the Town on July 1, 2009, requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported on the financial statements. The Town has not implemented GASB Statement No. 45 at June 30, 2011, or contracted with an actuarial firm to assist in evaluating the impact of this new standard on the Town. The amounts that should be recorded as the annual required contribution/OPEB cost and the net OPEB obligation is unknown.

NOTE 16 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2011, the Town was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs, which are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1, 2010 to June 30, 2010 by Primex³, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the Town of Holderness billed and paid for the year ended June 30, 2011 was \$17,491 for workers' compensation and \$24,071 for property/liability. The workers' compensation section of the self-insurance membership agreement permits Primex³ to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex³ foresees no likelihood of any additional assessment for this or any prior year.

NOTE 17 – CONTINGENT LIABILITIES

The Town has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement from the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the Town believes such disallowances, if any, will be immaterial.

NOTE 18 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

In March 2009 the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of Statement No. 54 are mandatory for the Town for fiscal year ended June 30, 2011 and accordingly have been implemented. GASB Statements No. 60 through No. 64 issued during this period are not effective for financial statements until the subsequent year.

TOWN OF HOLDERNESS
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

NOTE 19 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through January 23, 2012, the date the June 30, 2011 financial statements were issued, and no events occurred that require recognition or disclosure.

COMBINING AND INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2011

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 1,656,304	\$ 1,532,266	\$ (124,038)
Land use change	2,000	13,400	11,400
Timber	3,500	11,514	8,014
Other taxes	7,101	6,397	(704)
Payment in lieu of taxes	29,932	30,232	300
Interest and penalties on taxes	35,000	44,321	9,321
Total from taxes	<u>1,733,837</u>	<u>1,638,131</u>	<u>(95,706)</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	9,000	12,507	3,507
Motor vehicle permit fees	350,000	345,589	(4,411)
Building permits	3,000	8,248	5,248
Other	5,000	7,217	2,217
Total from licenses, permits, and fees	<u>367,000</u>	<u>373,561</u>	<u>6,561</u>
Intergovernmental:			
State:			
Meals and rooms distribution	88,998	88,998	-
Highway block grant	71,143	71,209	66
State and federal forest land reimbursement	22	20	(2)
Other	-	35,799	35,799
Total from intergovernmental	<u>160,163</u>	<u>196,026</u>	<u>35,863</u>
Charges for services:			
Income from departments	<u>111,200</u>	<u>148,611</u>	<u>37,411</u>
Miscellaneous:			
Sale of municipal property	100	700	600
Interest on investments	20,000	21,075	1,075
Insurance dividends and reimbursements	34,600	34,334	(266)
Other	-	1,273	1,273
Total from miscellaneous	<u>54,700</u>	<u>57,382</u>	<u>2,682</u>
Other financing sources:			
Transfers in	293,650	289,898	(3,752)
Proceeds of long term debt	350,000	350,000	-
Total other financing sources	<u>643,650</u>	<u>639,898</u>	<u>(3,752)</u>
Total revenues and other financing sources	3,070,550	<u>\$ 3,053,609</u>	<u>\$ (16,941)</u>
Unreserved fund balance used to reduce tax rate	2,500		
Total revenues, other financing sources, and use of fund balance	<u>\$ 3,073,050</u>		

SCHEDULE 2
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2011

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 119,642	\$ 120,333	\$ -	\$ (691)
Election and registration	-	68,900	60,379	-	8,521
Financial administration	-	61,500	65,656	1,132	(5,288)
Revaluation of property	-	42,750	61,393	10,000	(28,643)
Legal	-	15,000	11,400	-	3,600
Personnel administration	-	312,078	284,493	-	27,585
Planning and zoning	-	46,320	30,115	-	16,205
General government buildings	2,357	15,425	13,488	2,200	2,094
Cemeteries	-	3,250	1,859	1,000	391
Insurance, not otherwise allocated	-	27,900	25,595	-	2,305
Other	-	4,000	-	-	4,000
Total general government	2,357	716,765	674,711	14,332	30,079
Public safety:					
Police	8,069	386,270	388,799	1,351	4,189
Ambulance	-	35,000	40,833	-	(5,833)
Fire	-	151,500	153,432	5,585	(7,517)
Building inspection	-	4,830	8,471	-	(3,641)
Emergency management	-	2,300	2,033	-	267
Total public safety	8,069	579,900	593,568	6,936	(12,535)
Highways and streets:					
Highways and streets	-	287,800	276,355	10,000	1,445
Street lighting	-	5,300	4,415	-	885
Total highways and streets	-	293,100	280,770	10,000	2,330
Sanitation:					
Solid waste disposal	8,900	203,500	147,247	-	65,153
Sewage collection and disposal	-	3,800	10,204	-	(6,404)
Total sanitation	8,900	207,300	157,451	-	58,749
Health:					
Pest control	-	2,800	1,500	-	1,300
Health agencies	-	24,325	24,325	-	-
Total health	-	27,125	25,825	-	1,300
Welfare:					
Direct assistance	-	20,650	12,016	-	8,634
Culture and recreation:					
Parks and recreation	-	60,850	57,010	-	3,840
Library	-	113,600	106,972	-	6,628
Patriotic purposes	-	1,035	793	242	-
Total culture and recreation	-	175,485	164,775	242	10,468
Conservation:					
Administration	-	2,400	850	-	1,550

(Continued)

SCHEDULE 2 (Continued)
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2011

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Debt service:					
Principal of long-term debt	-	60,000	60,000	-	-
Interest on long-term debt	-	5,175	5,175	-	-
Total debt service	-	65,175	65,175	-	-
Capital outlay:					
Buildings	-	367,500	379,812	13,531	(25,843)
Machinery	-	92,650	105,370	-	(12,720)
Improvements, other than buildings	5,380	196,000	175,277	45,500	(19,397)
Total capital outlay	5,380	656,150	660,459	59,031	(57,960)
Other financing uses:					
Transfers out	-	329,000	341,500	-	(12,500)
Total appropriations, expenditures, other financing uses, and encumbrances	\$ 24,706	\$ 3,073,050	\$ 2,977,100	\$ 90,541	\$ 30,115

SCHEDULE 3
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2011

Unassigned fund balance, beginning		\$ 792,838
Changes:		
Unassigned fund balance used to reduce 2011 tax rate		(2,500)
2011 Budget summary:		
Revenue shortfall (Schedule 1)	\$ (16,941)	
Unexpended balance of appropriations (Schedule 2)	<u>30,115</u>	
2011 Budget surplus		<u>13,174</u>
Unassigned fund balance, ending		<u><u>\$ 803,512</u></u>

SCHEDULE 4
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2011

	Special Revenue Fund		
	Police Detail	Permanent Fund	Total
ASSETS			
Investments	\$ -	\$ 14,020	\$ 14,020
Interfund receivable	17,954	-	17,954
Total assets	<u>\$ 17,954</u>	<u>\$ 14,020</u>	<u>\$ 31,974</u>
FUND BALANCES			
Nonspendable fund balance	\$ -	\$ 4,750	\$ 4,750
Assigned fund balance	17,954	9,270	27,224
Total fund balances	<u>\$ 17,954</u>	<u>\$ 14,020</u>	<u>\$ 31,974</u>

SCHEDULE 5
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2011

	Special Revenue Fund		
	Police Detail	Permanent Fund	Total
Revenues:			
Charges for services	\$ 11,125	\$ -	\$ 11,125
Miscellaneous	-	21	21
Total revenues	11,125	21	11,146
Expenditures:			
Current:			
Public safety	9,799	-	9,799
Net change in fund balances	1,326	21	1,347
Fund balances, beginning	16,628	13,999	30,627
Fund balances, ending	\$ 17,954	\$ 14,020	\$ 31,974



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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INDEPENDENT AUDITOR'S COMMUNICATION OF NO MATERIAL WEAKNESSES

To the Members of the Board of Selectmen
Town of Holderness
Holderness, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities and the aggregate remaining fund information of the Town of Holderness as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Holderness' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, the board of selectmen, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

January 23, 2012

*Plodzik & Sanderson
Professional Association*