

**TOWN OF HOLDERNESS
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012**

TOWN OF HOLDERNESS, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
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PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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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 fund, and aggregate remaining fund information of the Town of Holderness as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 16 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, 2012, 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 fund and aggregate remaining fund information of the Town of Holderness as of June 30, 2012, 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) 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. They 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 the basic financial statements and certain additional procedures,

Town of Holderness
Independent Auditor's Report

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 28, 2013

Plodzik & Sanderson
Professional Association

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2012

Presented herewith please find the Management Discussion & Analysis Report for the Town of Holderness for the year ending June 30, 2012. 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, 2012

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 reports 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, 2012

Government-wide Financial Analysis

Statement of Net Assets

Net assets of the Town of Holderness as of June 30, 2011 and 2012 are as follows:

	2011	2012
Current and other assets:		
Capital assets	\$ 4,052,059	\$ 4,015,814
Other assets	6,157,518	6,405,357
Total assets	<u>\$10,209,577</u>	<u>\$10,421,171</u>
Long term and other liabilities:		
General obligation debt payable	\$ 410,000	\$ 350,000
Other liabilities	4,562,689	4,609,465
Total liabilities	<u>\$ 4,972,689</u>	<u>\$ 4,959,465</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 3,642,059	\$ 3,665,814
Restricted	4,750	14,031
Unrestricted	1,590,079	1,781,861
Total net assets	<u><u>\$ 5,236,888</u></u>	<u><u>\$ 5,461,706</u></u>

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2012

Statement of Activities

Changes in net assets for the year ending June 30, 2011 and 2012 are as follows:

	<u>2011</u>	<u>2012</u>
Program revenues:		
Charges for services	\$ 159,736	\$ 162,471
Operating grants and contributions	86,352	123,227
Capital grants and contributions	-	-
Total program revenues	<u>246,088</u>	<u>285,698</u>
General revenues:		
Taxes	1,631,115	1,699,870
Licenses and permits	373,561	380,106
Intergovernmental revenue	124,817	94,154
Miscellaneous	89,803	66,571
Total general revenues	<u>2,219,296</u>	<u>2,240,701</u>
Total revenues	<u>2,465,384</u>	<u>2,526,399</u>
Program expenses:		
General government	674,581	708,718
Public safety	640,952	644,957
Highways and streets	295,568	436,406
Health and welfare	37,841	58,557
Sanitation	157,451	153,516
Culture and recreation	165,584	185,509
Conservation	850	835
Interest and fiscal charges	3,737	8,881
Non capitalized capital outlay	<u>344,530</u>	<u>104,562</u>
Total expenses	<u>2,321,094</u>	<u>2,301,941</u>
Change in net assets	144,290	224,818
Net assets - beginning of year	<u>5,092,598</u>	<u>5,236,888</u>
Net assets - ending of year	<u><u>\$5,236,888</u></u>	<u><u>\$5,461,706</u></u>

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2012

Town of Holderness Activities

As shown in the above statement the Town experienced an increase in financial position of \$224,818 on the full accrual basis of accounting. This increase is primarily due to the Town capitalizing over \$177,000 in new capital assets and debt reduction of \$60,000.

The General fund shows total fund balances of \$1,498,908 this is an increase of \$190,773 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 \$177,983 and retired \$47,722 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, 2. To adequately fund reserve accounts for capital purchases and/or determine future debt needs if reserves are not sufficient for all purchases. One of management's priorities is to limit borrowing whenever possible by annually funding capital reserve accounts. The Board is now considering accelerating some larger capital purchases that require financing to FY 14 and FY 16 in order to take advantage of historically low interest rates. Increases in annual capital reserve fund contributions will also be necessary in order to keep on par with rising equipment and material prices.

Long-Term Obligations

During the year ending June 30, 2012 the Town decreased its general obligation debt by \$60,000.

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 ending June 30, 2012 is \$1,029,038.

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.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2012

Management's concerns for the future include:

The effect of the continuing poor economy on Holderness's property values. Key to below average tax rates in Holderness is the significant value of lake front property. Although the poor economy's impact on Squam Lake waterfront properties has been minimal to date compared to other vacation property communities in New Hampshire, if that was to change then a significant change in the town financial management would have to occur including reducing town services and possibly 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 puts 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 another very 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 remained 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 minimize the impact of major increases in health insurance rates by including some "self insurance" in our employee benefit program. Health insurance rates for FY13 have decreased significantly with a change in provider; however a 16% premium increase is projected for the FY14 operating budget. Also affecting the proposed FY14 budget is the unusually high amount of claims against the health insurance expendable trust due to employees exceeding their portion of 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, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 2,516,400
Investments	1,172,503
Other receivables, net of allowances for uncollectible	2,711,316
Tax deeded property, subject to resale	5,138
Capital assets, not being depreciated:	
Land	1,296,888
Capital assets, net of accumulated depreciation:	
Land improvements	100,808
Buildings and building improvements	1,155,422
Machinery, equipment, and vehicles	410,269
Infrastructure	<u>1,052,427</u>
Total assets	<u>10,421,171</u>
LIABILITIES	
Accounts payable	10,111
Accrued salaries and benefits	52,343
Intergovernmental payable	3,691,322
Accrued interest payable	8,363
Unearned revenue	847,326
Noncurrent obligations:	
Due within one year:	
Bond	58,333
Due in more than one year:	
Bond	<u>291,667</u>
Total liabilities	<u>4,959,465</u>
NET ASSETS	
Invested in capital assets, net of related debt	3,665,814
Restricted for perpetual care	14,031
Unrestricted	<u>1,781,861</u>
Total net assets	<u><u>\$ 5,461,706</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, 2012

		Program Revenues		Net (Expense)
		Charges	Operating	Revenue and
		for	Grants and	Change in
	Expenses	Services	Contributions	Net Assets
Governmental activities:				
General government	\$ 708,718	\$ 4,588	\$ 19,330	\$ (684,800)
Public safety	644,957	75,403	-	(569,554)
Highways and streets	436,406	-	103,897	(332,509)
Sanitation	153,156	48,836	-	(104,320)
Health	39,534	-	-	(39,534)
Welfare	19,023	-	-	(19,023)
Culture and recreation	185,509	33,644	-	(151,865)
Conservation	835	-	-	(835)
Interest on long-term debt	8,881	-	-	(8,881)
Capital outlay	104,562	-	-	(104,562)
Total governmental activities	<u>\$ 2,301,581</u>	<u>\$ 162,471</u>	<u>\$ 123,227</u>	<u>(2,015,883)</u>
General revenues:				
Taxes:				
Property				1,622,577
Other				77,293
Motor vehicle permit fees				353,393
Licenses and other fees				26,713
Grants and contributions not restricted to specific programs				94,154
Miscellaneous				66,571
Total general revenues				<u>2,240,701</u>
Change in net assets				224,818
Net assets, beginning				<u>5,236,888</u>
Net assets, ending				<u>\$ 5,461,706</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, 2012

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,494,698	\$ 21,702	\$ 2,516,400
Investments	1,158,472	14,031	1,172,503
Receivables, net of allowance for uncollectible:			
Taxes	2,709,793	-	2,709,793
Accounts	510	1,013	1,523
Voluntary tax liens	14,914	-	14,914
Voluntary tax liens reserved until collected	(14,914)	-	(14,914)
Tax dedeed property, subject to resale	5,138	-	5,138
Total assets	<u>\$ 6,368,611</u>	<u>\$ 36,746</u>	<u>\$ 6,405,357</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 10,111	\$ -	\$ 10,111
Accrued salaries and benefits	52,343	-	52,343
Intergovernmental payable	3,691,322	-	3,691,322
Deferred revenue	1,115,927	-	1,115,927
Total liabilities	<u>4,869,703</u>	<u>-</u>	<u>4,869,703</u>
Fund balances:			
Nonspendable	5,138	4,750	9,888
Restricted	-	9,281	9,281
Committed	693,772	22,715	716,487
Assigned	39,561	-	39,561
Unassigned	760,437	-	760,437
Total fund balances	<u>1,498,908</u>	<u>36,746</u>	<u>1,535,654</u>
Total liabilities and fund balances	<u>\$ 6,368,611</u>	<u>\$ 36,746</u>	<u>\$ 6,405,357</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, 2012

Total fund balances of governmental funds (Exhibit C-1)		\$ 1,535,654
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	\$ 6,077,158	
Less accumulated depreciation	<u>(2,061,344)</u>	
		4,015,814
Property taxes are recognized on an accrual basis on the Statement of Net Assets, not the modified accrual basis.		268,601
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(8,363)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Bond payable		<u>(350,000)</u>
Total net assets of governmental activities (Exhibit A)		<u>\$ 5,461,706</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, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 1,687,196	\$ -	\$ 1,687,196
Licenses and permits	380,106	-	380,106
Intergovernmental	217,381	-	217,381
Charges for services	146,713	15,758	162,471
Miscellaneous	66,560	11	66,571
Total revenues	<u>2,497,956</u>	<u>15,769</u>	<u>2,513,725</u>
Expenditures:			
Current:			
General government	696,158	-	696,158
Public safety	585,758	10,997	596,755
Highways and streets	289,761	-	289,761
Sanitation	162,388	-	162,388
Health	39,534	-	39,534
Welfare	19,023	-	19,023
Culture and recreation	182,595	-	182,595
Conservation	835	-	835
Debt service:			
Principal	60,000	-	60,000
Interest	1,725	-	1,725
Capital outlay	269,406	-	269,406
Total expenditures	<u>2,307,183</u>	<u>10,997</u>	<u>2,318,180</u>
Net change in fund balances	190,773	4,772	195,545
Fund balances, beginning, as restated (see Note 14)	1,308,135	31,974	1,340,109
Fund balances, ending	<u>\$ 1,498,908</u>	<u>\$ 36,746</u>	<u>\$ 1,535,654</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, 2012

Net change in fund balances of governmental funds (Exhibit C-3)	\$ 195,545
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 depreciation expense exceeded capitalized capital outlay.	
Capitalized capital outlay	\$ 177,983
Depreciation expense	<u>(214,228)</u>
	(36,245)
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds.	
Change in deferred tax revenue	12,674
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.	
Repayment of bond principal	60,000
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.	
Increase in accrued interest expense	<u>(7,156)</u>
Changes in net assets of governmental activities (Exhibit B)	<u><u>\$ 224,818</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 Change in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2012

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes	\$ 1,649,428	\$ 1,699,870	\$ 50,442
Licenses and permits	368,000	380,106	12,106
Intergovernmental	167,054	217,381	50,327
Charges for services	104,500	146,713	42,213
Miscellaneous	57,960	65,518	7,558
Total revenues	<u>2,346,942</u>	<u>2,509,588</u>	<u>162,646</u>
Expenditures:			
Current:			
General government	700,100	694,526	5,574
Public safety	587,350	586,822	528
Highways and streets	283,850	283,761	89
Sanitation	198,800	163,593	35,207
Health	44,200	39,534	4,666
Welfare	23,650	19,023	4,627
Culture and recreation	181,750	183,553	(1,803)
Conservation	2,700	1,935	765
Debt service:			
Principal	60,000	60,000	-
Interest	2,800	1,725	1,075
Capital outlay	192,500	227,870	(35,370)
Total expenditures	<u>2,277,700</u>	<u>2,262,342</u>	<u>15,358</u>
Excess of revenues over expenditures	<u>69,242</u>	<u>247,246</u>	<u>178,004</u>
Other financing sources (uses):			
Transfers in	192,500	181,823	(10,677)
Transfers out	<u>(309,500)</u>	<u>(309,500)</u>	<u>-</u>
Total other financing sources and uses	<u>(117,000)</u>	<u>(127,677)</u>	<u>(10,677)</u>
Net change in fund balances	<u>\$ (47,758)</u>	119,569	<u>\$ 167,327</u>
Increase in assigned (non-encumbrances) fund balance		(23,251)	
Increase in committed fund balance		(9,900)	
Unassigned fund balance, beginning, as restated (see Note 14)		942,620	
Unassigned fund balance, ending		<u>\$ 1,029,038</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, 2012

	<u>Agency</u>
ASSETS	
Investments	\$ 382,522
LIABILITIES	
Due to other governments	<u>382,522</u>
NET ASSETS	<u><u>\$ -</u></u>

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

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Holderness, New Hampshire (the Town), are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

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

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.

1-B Basis of 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 the financial position of the governmental activities of the Town at year-end. This statement includes all of the Town's assets, liabilities, and net assets, with the exception of the long-term costs of retirement, health care, and obligations for other postemployment benefits have also been omitted because the liability and expense have not been determined. 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. 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 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, with an emphasis placed on the 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 believes is particularly important to the financial statement users may be reported as a major fund.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
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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.

Special Revenue Funds – are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purpose other than capital projects.

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 assets held by the Town as a trustee or agent for individuals, private organizations, and other units of governments. 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. These funds are as follows:

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

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 funds.

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

Fiduciary Funds – The Town reports the following fiduciary fund:

Agency Funds:

Holderness School District Expendable Trust Fund – accounts for legally established funds to be used by the school district for future costs.

Pemi-Baker Regional School District Expendable and Private Purpose Trust Funds – accounts for legally established funds to be used by the School District for future costs and scholarship benefits to qualified graduating students.

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 revenue 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 (except property taxes mentioned below) to be available if they are collected within 60 days of the end of the current period. Property taxes, 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 and acquisitions under capital leases 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.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 property taxes, certain fees, 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 before it can be recognized (Interpretation No. 1, as modified, 60-day rule).

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. A cash 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 cash equivalents."

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 moneys in participation units in the public deposit investment pool established pursuant to New Hampshire 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 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,
- 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 moneys 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. 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.

Investments are stated at fair value based on quoted market prices.

1-F 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 taxes, accounts, and intergovernmental receivables. Tax revenue is recorded when a warrant for collection is committed to the tax collector. As prescribed by law, the tax collector executes a lien on properties for all uncollected property taxes in the following year after taxes are due. The lien on these properties has priority over other liens and accrues interest at 18% per annum. If property is not redeemed within the two year redemption period, the property is tax deeded to the Town.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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1-G 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 \$10,000 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.

Depreciation of all exhaustible fixed 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-H Allowance for Uncollectible Accounts

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

1-I 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 Statements of Net Assets, deferred revenue is classified as unearned revenue.

1-J 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-K Long-Term Obligations

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

1-L 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-M 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.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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- 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.
- 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 – 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 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. The Town has classified tax deeded property subject to resale, and the principal portion of permanent funds as being nonspendable, as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

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. The Town has classified the income portion of permanent funds as being restricted.

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. Expendable trust and police detail funds are included in this classification.

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 through the budgetary process. The Town has assigned funds consisting of encumbrances in the general fund at year-end.

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 11). As discussed in Note 1-C, 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-N 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 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.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
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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 2012, \$47,758 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)	\$ 2,691,411
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
To record expendable trust fund revenue	1,044
To eliminate transfers between general and expendable trust funds	(181,824)
Change in deferred tax revenue relating to 60-day revenue recognition	(12,675)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,497,956</u>

Expenditures and other financing uses:

Per Exhibit D (budgetary basis)	\$ 2,571,842
Adjustment:	
Basis differences:	
Encumbrances, beginning	90,541
Encumbrances, ending	(45,700)
GASB Statement No. 54:	
To eliminate transfers between general and expendable trust funds	(309,500)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,307,183</u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2012, \$71,221 of the Town's bank balances of \$2,590,247 was exposed to custodial credit risk as uninsured and uncollateralized.

Repurchase Agreement – Included in the Town's cash equivalents at June 30, 2012, is a short-term investment in a repurchase agreement issued by a local banking institution. Under this agreement, the Town will be repaid principal plus interest on a specified date which is subsequent to year-end. The agreement is guaranteed/collateralized with securities held by the banking institution which equal the amount of the agreement. To the extent that the banking institution may default on its commitment to this obligation, the Town is at risk of economic loss.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Management considers this exposure to be minimal. At June 30, 2012, the Town held an investment in the following repurchase agreement:

Amount	Interest Rate %	Maturity Date	Collateral Pledged	
			Underlying Securities	Market Value
\$ 2,045,000	5.00	September 15, 2033	GNMA	\$ 2,268,150

Custodial Credit Risk – The Town’s repurchase agreements are all with banking institutions and therefore subject to custodial credit risk. The custodial credit risk is the risk that in the event of bank failure, the Town’s deposits may not be recovered.

Interest Rate Risk – The term repurchase agreements are also subject to interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the value of the Town’s investments.

As of June 30, 2012, the Town’s bank balances were exposed to custodial credit risk and interest rate risk as follows:

	Custodial Credit Risk		
	Insured	Collateralized	Uncollateralized
Governmental-type:			
Overnight repurchase agreements	\$ -	\$ 2,265,204	\$ -
Checking	250,000	-	71,221
Fiduciary:			
Checking	3,822	-	-
Total	<u>\$ 253,822</u>	<u>\$ 2,265,204</u>	<u>\$ 71,221</u>

NOTE 4 – INVESTMENTS

The Town maintains a portfolio of short-term maturity investments, including certificates of deposits and investments in New Hampshire Public Deposit Investment Pool. As of June 30, 2012, the Town had the following investments:

	Governmental Activities	Fiduciary Funds	Total
Certificate of deposit	\$ 505,813	\$ -	\$ 505,813
New Hampshire Public Deposit Investment Pool	666,690	382,522	1,049,212
	<u>\$ 1,172,503</u>	<u>\$ 382,522</u>	<u>\$ 1,555,025</u>

NOTE 5 – 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, 2011, upon which the 2011 property tax levy was based is:

For the New Hampshire education tax	\$ 686,613,104
For all other taxes	\$ 690,435,404

The Town subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Taxes were levied 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 dates. 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.

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.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The tax rates and amounts assessed for the year ended June 30, 2012 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$2.43	\$ 1,671,799
School portion:		
State of New Hampshire	\$2.30	1,580,620
Local	\$6.96	4,807,730
County portion	\$1.47	1,017,189
Total		<u>\$ 9,077,338</u>

During the current fiscal year, the tax collector executed a lien on May 18, 2012 for all uncollected 2011 property taxes.

Taxes receivable at June 30, 2012, are as follows:

Property:	
Levy of 2012	\$ 2,575,720
Unredeemed (under tax lien):	
Levy of 2011	78,015
Levy of 2010	52,700
Levies of 2009 and prior	3,030
Yield	328
Taxes receivable	<u>\$ 2,709,793</u>

NOTE 6 – OTHER RECEIVABLES

Receivables at June 30, 2012, consisted of accounts receivables (billings for police details and other charges). 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.

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TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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JUNE 30, 2012

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 consisted of the following:

	Balance, beginning	Transfers and Additions	Transfers and Disposals	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 1,296,888	\$ -	\$ -	\$ 1,296,888
Construction in progress	302,440	13,531	(315,971)	-
Total capital assets not being depreciated	<u>1,599,328</u>	<u>13,531</u>	<u>(315,971)</u>	<u>1,296,888</u>
Being depreciated:				
Land improvements	154,422	-	-	154,422
Buildings and building improvements	1,331,140	315,971	-	1,647,111
Machinery, equipment, and vehicles	1,584,843	39,085	(47,722)	1,576,206
Infrastructure	1,244,414	125,367	-	1,369,781
Software	32,750	-	-	32,750
Total capital assets being depreciated	<u>4,347,569</u>	<u>480,423</u>	<u>(47,722)</u>	<u>4,780,270</u>
Total all capital assets	<u>5,946,897</u>	<u>493,954</u>	<u>(363,693)</u>	<u>6,077,158</u>
Less accumulated depreciation:				
Land improvements	(45,892)	(7,722)	-	(53,614)
Buildings and building improvements	(457,286)	(34,403)	-	(491,689)
Machinery, equipment, and vehicles	(1,110,996)	(102,663)	47,722	(1,165,937)
Infrastructure	(247,914)	(69,440)	-	(317,354)
Software	(32,750)	-	-	(32,750)
Total accumulated depreciation	<u>(1,894,838)</u>	<u>(214,228)</u>	<u>47,722</u>	<u>(2,061,344)</u>
Net book value, capital assets being depreciated	<u>2,452,731</u>	<u>266,195</u>	<u>-</u>	<u>2,718,926</u>
Net book value, all governmental activities capital assets	<u>\$ 4,052,059</u>	<u>\$ 279,726</u>	<u>\$ (315,971)</u>	<u>\$ 4,015,814</u>

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	\$ 12,560
Public safety	48,202
Highways and streets	146,645
Sanitation	3,907
Culture and recreation	2,914
Total depreciation expense	<u>\$ 214,228</u>

NOTE 8 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments of \$3,691,322 at June 30, 2012 consist of the most recent tax commitment that is due to the Holderness School District, Pemi-Baker Regional School District, and Grafton County.

NOTE 9 – DEFERRED/UNEARNED REVENUE

Deferred/unearned revenue of \$1,115,927 at June 30, 2012 consists of the following:

Local portion of property taxes due subsequent to the fiscal year-end	\$ 835,966
Property taxes uncollected 60 days subsequent to the fiscal year-end	268,601
Miscellaneous contributions received in advance of related expenditures	11,360
Total deferred/unearned revenue	<u>\$ 1,115,927</u>

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

NOTE 10 – LONG-TERM LIABILITIES

Changes in the Town's long-term obligations consisted of the following for the year ended June 30, 2012:

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

Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at June 30, 2012	Current Portion
General obligation bond payable:						
Transfer station	\$ 350,000	2011	2017	2.37	<u>\$ 350,000</u>	<u>\$ 58,333</u>

The annual requirements to amortize the general obligation bond outstanding as of June 30, 2012, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	58,334	2,765	61,099
2018	58,334	1,383	59,717
Totals	<u>\$ 350,000</u>	<u>\$ 29,240</u>	<u>\$ 379,240</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.

NOTE 11 – ENCUMBRANCES

Total encumbrances outstanding of \$45,700 at June 30 2012, of which \$29,390 is included in total committed fund balance of \$713,587 and \$16,310 is included in the total assigned fund balance of \$39,561, are broken down as follows:

General government:	
Financial administration	\$ 2,700
Revaluation of property	10,000
Public safety:	
Fire	8,000
Highways and streets	4,000
Sanitation:	
Solid waste disposal	1,205
Culture and recreation:	
Library	1,200
Conservation	1,100
Capital outlay:	
Improvements, other than buildings	17,495
Total encumbrances	<u>\$ 45,700</u>

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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NOTE 12 – GOVERNMENTAL ACTIVITIES NET ASSETS

Governmental activities net assets reported on the government-wide Statement of Net Assets at June 30, 2012 include the following:

Invested in capital assets, net of related debt:	
Capital assets, net of accumulated depreciation	\$ 4,015,814
Less:	
General obligation bond payable	(350,000)
Total invested in capital assets, net of related debt	<u>3,665,814</u>
Restricted for perpetual care	14,031
Unrestricted	<u>1,781,861</u>
Total net assets	<u><u>\$ 5,461,706</u></u>

NOTE 13 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at June 30, 2012 include the following:

Nonspendable:		
Major fund:		
General:		
Tax deeded property, subject to resale	\$ 5,138	
Nonmajor fund:		
Permanent:		
Principal balance	<u>4,750</u>	
Total nonspendable fund balance		\$ 9,888
Restricted:		
Nonmajor fund:		
Permanent:		
Income balance		9,281
Committed:		
Major fund:		
General:		
Nonlapsing appropriations	\$ 29,390	
Voted from surplus	7,000	
Expendable trust funds	654,482	
Sewer improvements	<u>2,900</u>	
	<u>693,772</u>	
Nonmajor fund:		
Special revenue:		
Police special detail	<u>22,715</u>	
Total committed fund balance		716,487
Assigned:		
Major fund:		
General:		
Encumbrances	\$ 16,310	
Abatements	<u>23,251</u>	
Total assigned fund balance		39,561
Unassigned:		
Major fund:		
General		
		<u>760,437</u>
Total governmental fund balances		<u><u>\$ 1,535,654</u></u>

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

NOTE 14 – PRIOR PERIOD ADJUSTMENT

Unassigned fund balance (non-GAAP budgetary basis) at July 1, 2011 was restated to give retroactive effect to the following prior period adjustment:

To restate beginning fund balance to remove the deferral of the 60-day uncollected balance of property taxes recorded on a budgetary basis	\$ 139,108
Unassigned fund balance (budgetary basis), as previously reported	803,512
Unassigned fund balance (budgetary basis), as restated	<u>\$ 942,620</u>

Total fund balance (GAAP basis) at July 1, 2011 was restated to give retroactive effect to the following prior period adjustment:

To restate beginning fund balance to include the deferral of unredeemed liens in the 60-day property tax deferral balance	\$ (116,819)
Total fund balance (GAAP basis), as previously reported	1,424,954
Total fund balance (GAAP basis), as restated	<u>\$ 1,308,135</u>

NOTE 15 – EMPLOYEE RETIREMENT PLAN

The Town 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.

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. Police employees are required to contribute 11.55% and other employees are required to contribute 7% of their earnable compensation. For fiscal year 2012, the Town contributed the following rates for police and other employees:

	Police	Other Employees
January 1 through June 30	14.63%	9.16%
July 1 through July 31	25.57%	11.09%
August 1 through December 31	19.95%	8.80%

The contribution requirements for the Town of Holderness for the fiscal years 2010, 2011, and 2012 were \$93,525, \$76,912, and \$94,680, respectively, which were paid in full in each year.

NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to pension benefits described in preceding note, the Town provides postemployment benefit options for health care, life insurance, and dental insurance to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with the Town's agreements, collective bargaining agreements, and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility include: years of service, employee age, and whether the employee has vested in the respective retirement plan. The Town funds the benefits on a pay-as-you-go basis. Eligible employees are required to pay set premiums for a portion of the cost with the Town subsidizing the remaining costs. Expenses for the postretirement health care benefits are recognized as eligible employee claims are paid.

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 January 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, 2012 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.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 17 – 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 2012, the Town was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pool, currently operating as common risk management and insurance programs for member Towns and cities.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1, 2011 to June 30, 2012 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, 2012 was \$19,157 for workers' compensation and \$24,434 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 18 – 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 19 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS

The following GASB pronouncements were effective for the Town for the fiscal year ended June 30, 2012; however, neither GASB Statement impacted these financial statements:

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employee Plans*, issued in December 2009, and

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), issued July 2011.

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the Town beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus and Amendments of GASB Statements No. 14 and No. 34*, issued November 2010, will be effective for the Town beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011, will be effective for the Town beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of the Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011, will be effective for the Town beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012, will be effective for the Town beginning with its fiscal year ending June 30, 2014. This Statement is intended to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

GASB Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*, issued March 2012, will be effective for the Town beginning with its fiscal year ending June 30, 2014. This Statement is intended to resolve conflicting accounting and financial report and guidance that emerged from two recent standards, Statement No. 54 and Statement No. 62. These standards conflicted with existing guidance in Statements No. 10, 13, and 48.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued in June 2012, will be effective for the School District beginning with its fiscal year ending June 30, 2014. **GASB Statement No. 68, *Accounting and Financial Reporting for Pensions***, issued in June 2012, will be effective for the School District beginning with its fiscal year ending June 30, 2015. The guidance contained in these two Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. They replace the requirements of Statements No. 27 and 50.

NOTE 20 – 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 28, 2013, the date the June 30, 2012 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, 2012

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 1,603,388	\$ 1,622,577	\$ 19,189
Land use change	2,500	21,000	18,500
Timber	3,500	8,139	4,639
Payment in lieu of taxes	3,040	-	(3,040)
Other taxes	7,000	6,918	(82)
Interest and penalties on taxes	30,000	41,236	11,236
Total from taxes	<u>1,649,428</u>	<u>1,699,870</u>	<u>50,442</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	9,000	13,806	4,806
Motor vehicle permit fees	350,000	353,393	3,393
Building permits	4,000	7,057	3,057
Other	5,000	5,850	850
Total from licenses, permits, and fees	<u>368,000</u>	<u>380,106</u>	<u>12,106</u>
Intergovernmental:			
State:			
Meals and rooms distribution	94,154	94,154	-
Highway block grant	72,880	70,361	(2,519)
State and federal forest land reimbursement	20	-	(20)
Other	-	19,330	19,330
Federal:			
FEMA	-	33,536	33,536
Total from intergovernmental	<u>167,054</u>	<u>217,381</u>	<u>50,327</u>
Charges for services:			
Income from departments	<u>104,500</u>	<u>146,713</u>	<u>42,213</u>
Miscellaneous:			
Sale of municipal property	-	100	100
Interest on investments	22,600	26,532	3,932
Insurance dividends and reimbursements	35,360	35,706	346
Other	-	3,180	3,180
Total from miscellaneous	<u>57,960</u>	<u>65,518</u>	<u>7,558</u>
Other financing sources:			
Transfers in	<u>192,500</u>	<u>181,823</u>	<u>(10,677)</u>
Total revenues and other financing sources	<u>2,539,442</u>	<u>\$ 2,691,411</u>	<u>\$ 151,969</u>
Unassigned fund balance used to reduce tax rate	<u>47,758</u>		
Total revenues, other financing sources, and use of fund balance	<u>\$ 2,587,200</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, 2012

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 122,200	\$ 126,914	\$ -	\$ (4,714)
Election and registration	-	69,500	65,418	-	4,082
Financial administration	1,132	61,500	53,812	2,700	6,120
Revaluation of property	10,000	42,965	45,987	10,000	(3,022)
Legal	-	15,000	17,549	-	(2,549)
Personnel administration	-	315,085	325,143	-	(10,058)
Planning and zoning	-	23,300	13,468	-	9,832
General government buildings	2,200	15,000	21,130	-	(3,930)
Cemeteries	1,000	3,150	2,303	-	1,847
Insurance, not otherwise allocated	-	25,900	24,434	-	1,466
Other	-	6,500	-	-	6,500
Total general government	14,332	700,100	696,158	12,700	5,574
Public safety:					
Police	1,351	388,500	392,733	-	(2,882)
Ambulance	-	45,050	45,000	-	50
Fire	5,585	151,500	147,450	8,000	1,635
Emergency management	-	2,300	575	-	1,725
Total public safety	6,936	587,350	585,758	8,000	528
Highways and streets:					
Highways and streets	10,000	278,550	284,990	4,000	(440)
Street lighting	-	5,300	4,771	-	529
Total highways and streets	10,000	283,850	289,761	4,000	89
Sanitation:					
Solid waste disposal	-	195,000	158,851	1,205	34,944
Other	-	3,800	3,537	-	263
Total sanitation	-	198,800	162,388	1,205	35,207
Health:					
Administration	-	17,900	13,217	-	4,683
Pest control	-	1,500	1,500	-	-
Health agencies	-	24,800	24,817	-	(17)
Total health	-	44,200	39,534	-	4,666
Welfare:					
Direct assistance	-	23,650	19,023	-	4,627
Culture and recreation:					
Parks and recreation	-	63,550	64,077	-	(527)
Library	-	114,200	114,507	1,200	(1,507)
Patriotic purposes	242	4,000	4,011	-	231
Total culture and recreation	242	181,750	182,595	1,200	(1,803)
Conservation	-	2,700	835	1,100	765

(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, 2012

	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	-	1,725	1,725	-	-
Interest on tax anticipation notes	-	1,075	-	-	1,075
Total debt service	-	62,800	61,725	-	1,075
Capital outlay:					
Buildings	13,531	23,500	34,946	-	2,085
Machinery	-	9,000	42,828	-	(33,828)
Improvements, other than buildings	45,500	160,000	191,632	17,495	(3,627)
Total capital outlay	59,031	192,500	269,406	17,495	(35,370)
Other financing uses:					
Transfers out	-	309,500	309,500	-	-
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 90,541</u>	<u>\$ 2,587,200</u>	<u>\$ 2,616,683</u>	<u>\$ 45,700</u>	<u>\$ 15,358</u>

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, 2012

Unassigned fund balance, beginning, as restated (see Note 14)		\$ 942,620
Changes:		
Unassigned fund balance used to reduce 2012 tax rate		(47,758)
2012 Budget summary:		
Revenue surplus (Schedule 1)	\$ 151,969	
Unexpended balance of appropriations (Schedule 2)	<u>15,358</u>	
2012 Budget surplus		167,327
Increase in assigned (non-encumbrances) fund balance		(23,251)
Increase in committed fund balance		<u>(9,900)</u>
Unassigned fund balance, ending, budgetary basis		<u><u>\$ 1,029,038</u></u>

SCHEDULE 4
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2012

	Special Revenue Fund		
	Police Detail	Permanent Fund	Total
ASSETS			
Cash and cash equivalents	\$ 21,702	\$ -	\$ 21,702
Investments	-	14,031	14,031
Accounts receivable	1,013	-	1,013
Total assets	<u>\$ 22,715</u>	<u>\$ 14,031</u>	<u>\$ 36,746</u>
FUND BALANCES			
Nonspendable	\$ -	\$ 4,750	\$ 4,750
Restricted	-	9,281	9,281
Committed	22,715	-	22,715
Total fund balances	<u>\$ 22,715</u>	<u>\$ 14,031</u>	<u>\$ 36,746</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, 2012

	Special Revenue Fund		
	Police Detail	Permanent Fund	Total
Revenues:			
Charges for services	\$ 15,758	\$ -	\$ 15,758
Miscellaneous	-	11	11
Total revenues	15,758	11	15,769
Expenditures:			
Current:			
Public safety	10,997	-	10,997
Net change in fund balances	4,761	11	4,772
Fund balances, beginning	17,954	14,020	31,974
Fund balances, ending	\$ 22,715	\$ 14,031	\$ 36,746