

**TOWN OF HOLDERNESS,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

TOWN OF HOLDERNESS, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
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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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Town of Holderness as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse and unmodified audit opinions.

Basis for Adverse Opinion on Governmental Activities

As discussed in Note 14 to the financial statements, management has not recorded the long-term costs of retirement health care costs and obligations for other postemployment benefits in the governmental activities. Accounting principles generally accepted in the United States of America require that those costs be recorded, which would increase the liabilities, decrease the net position, and increase the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities is not readily determinable.

Adverse Opinion

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Governmental Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the government-wide financial statements of the Town of Holderness, as of June 30, 2013, or the changes in financial position thereof for the year then ended.

*Town of Holderness
Independent Auditor's Report*

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of the Town of Holderness as of June 30, 2013, and the respective changes in financial position, and the respective budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3 through 9) 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.

Emphasis of Matter – Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Holderness's 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

February 7, 2014

*Plodzik & Sanderson
Professional Association*

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2013

Presented herewith please find the Management Discussion & Analysis Report for the Town of Holderness for the year ending June 30, 2013. 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 position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position 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 position 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

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2013

demonstrate compliance with finance-related legal requirements. The Town maintains two fund types: governmental and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of 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 position 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, 2013

Government-wide Financial Analysis

Statement of Net Position

Net position of the Town of Holderness as of June 30, 2012 and 2013 are as follows:

	<u>2012</u>	<u>2013</u>
Current and other assets:		
Capital assets	\$ 4,015,814	\$ 4,054,696
Other assets	<u>6,405,357</u>	<u>6,776,075</u>
Total assets	<u>10,421,171</u>	<u>10,830,771</u>
Long term and other liabilities:		
General obligation debt payable	350,000	291,667
Other liabilities	<u>4,609,465</u>	<u>3,873,774</u>
Total liabilities	<u>4,959,465</u>	<u>4,165,441</u>
Deferred inflows of resources:		
Unavailable revenue	<u>-</u>	<u>886,609</u>
Net Position:		
Net investment in capital assets	\$ 3,665,814	\$ 3,763,029
Restricted	14,031	14,041
Unrestricted	<u>1,781,861</u>	<u>2,001,651</u>
Total net position	<u>\$ 5,461,706</u>	<u>\$ 5,778,721</u>

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2013

Statement of Activities

Changes in net position for the year ending June 30, 2012 and 2013 are as follows:

	<u>2012</u>	<u>2013</u>
Program revenues:		
Charges for services	\$ 162,471	\$ 150,831
Operating grants and contributions	123,227	63,026
Total program revenues	<u>285,698</u>	<u>213,857</u>
General revenues:		
Taxes	1,699,870	1,826,261
Licenses and permits	380,106	391,944
Intergovernmental revenue	94,154	100,690
Miscellaneous	66,571	83,032
Total general revenues	<u>2,240,701</u>	<u>2,401,927</u>
Total revenues	<u>2,526,399</u>	<u>2,615,784</u>
Program expenses:		
General government	708,718	690,266
Public safety	644,957	692,145
Highways and streets	436,406	465,794
Health and welfare	58,557	54,481
Sanitation	153,156	161,190
Culture and recreation	185,509	187,875
Conservation	835	4,218
Interest and fiscal charges	8,881	6,938
Non capitalized capital outlay	104,562	35,862
Total expenses	<u>2,301,581</u>	<u>2,298,769</u>
Change in net position	224,818	317,015
Net position - beginning of year	5,236,888	5,461,706
Net position - end of year	<u>\$ 5,461,706</u>	<u>\$ 5,778,721</u>

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2013

Town of Holderness Activities

As shown in the above statement the Town experienced an increase in financial position of \$317,015 on the full accrual basis of accounting. This increase is primarily due to the Town capitalizing over \$292,726 in new capital assets and debt reduction of \$58,333.

The General fund shows total fund balances of \$1,880,582 this is an increase of \$381,674 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 \$292,726 and retired \$213,895 of capital assets.

Capital Assets at Year End
Governmental Activities

	June 13, 2013	June 13, 2012	Increase (Decrease)
Land	\$ 1,296,888	\$ 1,296,888	\$ -
Land improvements	154,422	154,422	-
Buildings and building improvements	1,648,986	1,647,111	1,875
Machinery, equipment, and vehicles	1,554,791	1,576,206	(21,415)
Infrastructure	1,500,902	1,369,781	131,121
Software	-	32,750	(32,750)
Less accumulated depreciation	(2,101,293)	(2,061,344)	(39,949)
Total capital assets, net	<u>\$ 4,054,696</u>	<u>\$ 4,015,814</u>	<u>\$ 38,882</u>

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. For FY 14 the Board accelerated some larger capital purchases for the fire and public works departments utilizing approximately \$250,000 of fund balance, existing capital reserve funds and \$88,000 of financing 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, 2013 the Town decreased its general obligation debt by \$58,333.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2013

A schedule of outstanding debt is presented below:

Governmental activities:

	Balance			
	7/1/12	Issued	Matured	6/30/13
General obligation bonds payable	\$ 350,000	\$ -	\$ (58,333)	\$ 291,667

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

One of the key factors to maintaining a stable tax rate keeping a "healthy" fund balance that can be used when need 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 6-8% of the total appropriations for the town, school, state education tax, and county combined. Our unassigned fund balance for FY ending June 30, 2013 is \$871,516.

The town's management philosophy regarding the development and expenditure of the operations and capital budgets has been modified some compared to the past several years which is now a combination of zero base and value based budget building while continuing to fund current 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:

- The effect of the continuing slow recovering 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 continues to be minimal to date compared to other vacation property communities in New Hampshire, if that were 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.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2013

- 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 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 minimize the impact of major increases in health insurance rates by including some “self insurance” in our employee benefit program. Health insurance rates in FY13 increased significantly and a 16% premium increase was added for the FY14 operating budget.

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 Position
June 30, 2013

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 4,109,855
Investments	1,221,296
Taxes receivable	1,444,924
Capital assets:	
Land	1,296,888
Other capital assets, net of depreciation	2,757,808
Total assets	<u>10,830,771</u>
LIABILITIES	
Accrued salaries and benefits	54,103
Accrued interest payable	6,799
Intergovernmental payable	3,799,614
Long-term liabilities:	
Due within one year	58,333
Due in more than one year	246,592
Total liabilities	<u>4,165,441</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	884,830
Unavailable revenue - donations	1,779
	<u>886,609</u>
NET POSITION	
Net investment in capital assets	3,763,029
Restricted for perpetual care	14,041
Unrestricted	2,001,651
Total net position	<u><u>\$ 5,778,721</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, 2013

		Program Revenues		Net (Expense)
		Charges	Operating	Revenue and
		for	Grants and	Change In
	Expenses	Services	Contributions	Net Position
Governmental activities:				
General government	\$ 690,266	\$ 3,798	\$ -	\$ (686,468)
Public safety	692,145	73,767	1,022	(617,356)
Highways and streets	465,794	-	62,004	(403,790)
Sanitation	161,190	37,245	-	(123,945)
Health	41,077	-	-	(41,077)
Welfare	13,404	-	-	(13,404)
Culture and recreation	187,875	36,021	-	(151,854)
Conservation	4,218	-	-	(4,218)
Interest on long-term debt	6,938	-	-	(6,938)
Capital outlay	35,862	-	-	(35,862)
Total governmental activities	<u>\$ 2,298,769</u>	<u>\$ 150,831</u>	<u>\$ 63,026</u>	<u>(2,084,912)</u>
General revenues:				
Taxes:				
Property				1,709,739
Other				116,522
Motor vehicle permit fees				360,565
Licenses and other fees				31,379
Grants and contributions not restricted to specific programs				100,690
Miscellaneous				83,032
Total general revenues				<u>2,401,927</u>
Change in net position				317,015
Net position, beginning				<u>5,461,706</u>
Net position, ending				<u>\$ 5,778,721</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, 2013

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 4,085,553	\$ 24,302	\$ 4,109,855
Investments	1,207,255	14,041	1,221,296
Taxes receivable	1,444,924	-	1,444,924
Voluntary tax liens	13,483	-	13,483
Voluntary tax liens reserved until collected	(13,483)	-	(13,483)
Total assets	<u>\$ 6,737,732</u>	<u>\$ 38,343</u>	<u>\$ 6,776,075</u>
LIABILITIES			
Accrued salaries and benefits	\$ 54,103	\$ -	\$ 54,103
Due to other governments	3,799,614	-	3,799,614
Total liabilities	<u>3,853,717</u>	<u>-</u>	<u>3,853,717</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - Property taxes	1,001,654	-	1,001,654
Unavailable revenue - Donations	1,779	-	1,779
Total deferred inflows of resources	<u>1,003,433</u>	<u>-</u>	<u>1,003,433</u>
FUND BALANCES			
Nonspendable	-	4,750	4,750
Restricted	-	9,291	9,291
Committed	984,145	24,302	1,008,447
Assigned	24,921	-	24,921
Unassigned	871,516	-	871,516
Total fund balances	<u>1,880,582</u>	<u>38,343</u>	<u>1,918,925</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 6,737,732</u>	<u>\$ 38,343</u>	<u>\$ 6,776,075</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 Position
For the Fiscal Year Ended June 30, 2013

Total fund balances of governmental funds (Exhibit C-1)		\$ 1,918,925
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.		
Cost	\$ 6,155,989	
Less accumulated depreciation	<u>(2,101,293)</u>	
		4,054,696
Property taxes not collected within 60 days of fiscal year-end are not available to pay for current period expenditures, and therefore, are deferred in the funds.		116,824
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(6,799)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bond	\$ (291,667)	
Compensated absences	<u>(13,258)</u>	
		<u>(304,925)</u>
Net position of governmental activities (Exhibit A)		<u><u>\$ 5,778,721</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, 2013

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 1,978,039	\$ -	\$ 1,978,039
Licenses and permits	391,946	-	391,946
Intergovernmental	162,694	1,022	163,716
Charges for services	140,636	10,195	150,831
Miscellaneous	83,019	10	83,029
Total revenues	<u>2,756,334</u>	<u>11,227</u>	<u>2,767,561</u>
EXPENDITURES			
Current:			
General government	670,269	-	670,269
Public safety	621,688	9,630	631,318
Highways and streets	295,739	-	295,739
Sanitation	150,618	-	150,618
Health	41,077	-	41,077
Welfare	13,404	-	13,404
Culture and recreation	182,224	-	182,224
Conservation	4,218	-	4,218
Debt service:			
Principal	58,333	-	58,333
Interest	8,502	-	8,502
Capital outlay	328,588	-	328,588
Total expenditures	<u>2,374,660</u>	<u>9,630</u>	<u>2,384,290</u>
Net change in fund balances	381,674	1,597	383,271
Fund balances, beginning	1,498,908	36,746	1,535,654
Fund balances, ending	<u>\$ 1,880,582</u>	<u>\$ 38,343</u>	<u>\$ 1,918,925</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, 2013

Net change in fund balances of governmental funds (Exhibit C-3)	\$ 383,271
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	\$ 292,726
Depreciation expense	<u>(249,757)</u>
	42,969
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to decrease net position.	(4,087)
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	(151,777)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net position.	
Repayment of bond principal	58,333
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	\$ 1,564
Increase in compensated absences payable	<u>(13,258)</u>
	(11,694)
Changes in net position of governmental activities (Exhibit B)	<u><u>\$ 317,015</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, 2013

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Taxes	\$ 1,750,376	\$ 1,826,262	\$ 75,886
Licenses and permits	365,000	391,946	26,946
Intergovernmental	156,275	162,694	6,419
Charges for services	122,850	140,636	17,786
Miscellaneous	60,499	76,690	16,191
Total revenues	<u>2,455,000</u>	<u>2,598,228</u>	<u>143,228</u>
EXPENDITURES			
Current:			
General government	735,294	670,769	64,525
Public safety	640,890	629,739	11,151
Highways and streets	291,650	291,739	(89)
Sanitation	180,325	149,852	30,473
Health	27,780	41,077	(13,297)
Welfare	28,000	13,404	14,596
Culture and recreation	185,300	181,024	4,276
Conservation	3,425	3,118	307
Debt service:			
Principal	58,333	58,333	-
Interest	8,503	8,502	1
Capital outlay	364,600	336,973	27,627
Total expenditures	<u>2,524,100</u>	<u>2,384,530</u>	<u>139,570</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(69,100)</u>	<u>213,698</u>	<u>139,570</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	359,100	327,485	(31,615)
Transfers out	<u>(372,000)</u>	<u>(372,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(12,900)</u>	<u>(44,515)</u>	<u>(31,615)</u>
Net change in fund balance	<u>\$ (82,000)</u>	169,183	<u>\$ 107,955</u>
Decrease in nonspendable fund balance		5,138	
Increase in committed fund balance		(232,600)	
Decrease in assigned (non-encumbrance) fund balance		17,581	
Unassigned fund balance, beginning		1,029,038	
Unassigned fund balance, ending		<u>\$ 988,340</u>	

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

EXHIBIT E
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Fiduciary Fund
Statement of Fiduciary Net Position
June 30, 2013

	<u>Agency</u>
ASSETS	
Investments	\$ 392,821
LIABILITIES	
Due to other governmental units	<u>392,821</u>
NET POSITION	<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, 2013

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TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Holderness, New Hampshire (the Town), have been prepared 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 Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

1-C Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and 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 are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for State shared revenue, reimbursement-based grants and interest which use one year.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, licenses and permits, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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 a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlement, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements, and donations is recognized in the year in which all 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 specific purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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.

All the governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

Additionally, the Town reports the following fund types:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Permanent Fund - is used to record activity of legal trusts for which the interest on the corpus provides funds for the Town's cemetery operations.

Agency Fund - used to account for assets held in a trustee or agency capacity on behalf of outside parties, including other governments.

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."

The treasurer is required to deposit such moneys in solvent banks in the State or the Public Deposit Investment Pool pursuant to New Hampshire RSA 383:22. Funds may be deposited in banks outside of 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 to the State of New Hampshire in value at least equal to the amount of the deposit in each case.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

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 for the Town are reported at fair value generally based on quoted market prices.

1-F Receivables

Receivables recorded in the financial statements represent amounts due to the Town at June 30. They are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. They consist primarily of taxes receivable.

1-G Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental column in the government-wide financial statements.

Capital assets are defined by the Town as assets with an initial, individual cost of more than \$10,000 and an estimated minimum useful life in excess of one year. As the Town constructs or acquires additional capital assets each year, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, and equipment of the Town are depreciated using the straight-line method over the following estimated 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 Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises for reporting in this category. The Town reports unavailable revenues from two sources: property taxes and donations. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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JUNE 30, 2013

1-I Property Taxes

Property tax billings occur semi-annually and are based on the assessed inventory values as of April 1 of each year. Billings for the year were levied on November 9, 2012 and May 20, 2013. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

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 tax abatement and refunds, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any reserve for uncollectable 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 to these entities as required by law.

The Town net assessed valuation as of April 1, 2012 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 688,911,063
For all other taxes	\$ 692,601,263

The tax rates and amounts assessed for the year ended June 30, 2013 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$2.55	\$ 1,771,980
School portion:		
State of New Hampshire	\$2.37	1,630,806
Local	\$6.97	4,824,667
County portion	\$1.61	1,113,918
Total		<u>\$ 9,341,371</u>

1-J Compensated Absences

The Town's policy allows certain employees to earn varying amounts of vacation and sick time as set forth by the Town's personnel policy. A liability for those amounts is recorded in the government-wide financial statements.

1-K Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

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 Net Position/Fund Balance Reporting

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

- a) *Net investment in capital assets* – 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.
- b) *Restricted net position* – Consists of net position 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, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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- c) *Unrestricted net position* – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Balance Classifications - The fund balance of governmental funds is reported in five categories based on the nature of any limitations requiring the use of resources for specific programs. The Town itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The classifications used in the Town’s 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 the principal portion of permanent funds as being nonspendable.

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 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. The expendable trust funds and the police special detail fund, legislative body votes relative to the use of unassigned fund balance at year-end, and non-lapsing appropriations 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 and abatements in the general fund at year-end.

Unassigned – This classification includes the residual fund balance for the general fund.

When multiple net position/fund balance classifications are available for use, it is the government’s policy to utilize the most restricted balances first, then the next most restricted balance as needed. When components of unrestricted fund balance are used, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

In the general fund, the Town strives to maintain a minimum unassigned fund balance to be used for unanticipated emergencies of approximately 6-10% of appropriations.

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.

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.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

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 2013, \$82,000 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

The Town employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statement of Revenues and Expenditures-Budgetary Basis, presents the actual results to provide a comparison with the budget. The major difference between the budgetary basis and GAAP basis is as follows:

Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities, but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and commitments (encumbrances) for goods or services not received at year end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no liability exists.

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

Revenues and other financing sources:

Per Exhibit D (budgetary basis)	\$ 2,925,713
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
Interest income earned on eliminated expendable trust funds	6,329
To eliminate transfers between general and expendable trust funds	(327,485)
Change in deferred tax revenue relating to 60-day revenue recognition	151,777
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 2,756,334</u></u>

Expenditures and other financing uses:

Per Exhibit D (budgetary basis)	\$ 2,756,530
Adjustment:	
Basis differences:	
Encumbrances, beginning	45,700
Encumbrances, ending	(55,570)
GASB Statement No. 54:	
To eliminate transfers between general and expendable trust funds	(372,000)
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 2,374,660</u></u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

At June 30, 2013, the reported amount of the Town's deposits was \$4,109,855 and the bank balance was \$4,205,451. Of the bank balance \$3,963,067 was covered by federal depository insurance or by collateral held by the Town's agent in the Town's name, and \$242,384 was uninsured and uncollateralized.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

Custodial Credit Risk – Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2013, \$242,384 of the government's bank balance of \$4,205,451 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 242,384
Insured or collateral held by pledging bank	3,963,067
Total	<u>\$ 4,205,451</u>

Repurchase Agreement – Included in the Town's cash equivalents at June 30, 2013, 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. Management considers this exposure to be minimal. At June 30, 2013, the Town held an investment in the following repurchase agreements:

Amount	Interest Rate %	Maturity Date	Collateral Pledged	
			Underlying Securities	Market Value
\$ 1,778,211	5.00	July 1, 2013	FHLMC Pool	\$ 1,933,271
\$ 25,000	2.00	July 1, 2013	FHLMC Pool	\$ 24,353
\$ 2,000,000	2.50	July 1, 2013	FHLMC Pool	\$ 1,754,588

Custodial Credit Risk – The Town's repurchase agreements are all with banking institutions; therefore, are 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.

NOTE 4 – INVESTMENTS

Note 1-E, describes statutory requirements covering the investment of the Town funds. The Town also maintains a portfolio of short term maturity investments that are reported at fair value, based on quoted market prices. The Town's fiscal agent or custodian provides the fair value of all in investments.

At June 30, 2013, the Town had the following investments and maturities:

	Less Than 1 Year	1-5 Years
Investments type:		
Certificates of deposit	\$ -	\$ 508,534
New Hampshire Public Deposit Investment Pool	1,105,583	-
Total fair value	<u>\$ 1,105,583</u>	<u>\$ 508,534</u>

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 1,221,296
Investments per Statement of Fiduciary Net Position (Exhibit E)	392,821
Total investments	<u>\$ 1,614,117</u>

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

NOTE 5 – TAXES RECEIVABLE

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of June 30, 2013. Taxes receivable by year are as follows:

Property:	
Levy of 2013	\$ 1,312,176
Unredeemed (under tax lien):	
Levy of 2012	83,394
Levy of 2011	47,934
Levies of 2010 and prior	312
Yield	1,108
Total taxes receivable	<u>\$ 1,444,924</u>

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 consisted of the following:

	Balance, beginning	Additions	Disposals	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 1,296,888	\$ -	\$ -	\$ 1,296,888
Being depreciated:				
Land improvements	154,422	-	-	154,422
Buildings and building improvements	1,647,111	12,205	(10,330)	1,648,986
Machinery, equipment, and vehicles	1,576,206	149,400	(170,815)	1,554,791
Infrastructure	1,369,781	131,121	-	1,500,902
Software	32,750	-	(32,750)	-
Total capital assets being depreciated	4,780,270	292,726	(213,895)	4,859,101
Total all capital assets	6,077,158	292,726	(213,895)	6,155,989
Less accumulated depreciation:				
Land improvements	(53,614)	(7,721)	-	(61,335)
Buildings and building improvements	(491,689)	(42,255)	10,330	(523,614)
Machinery, equipment, and vehicles	(1,165,937)	(124,298)	166,728	(1,123,507)
Infrastructure	(317,354)	(75,483)	-	(392,837)
Software	(32,750)	-	32,750	-
Total accumulated depreciation	(2,061,344)	(249,757)	209,808	(2,101,293)
Net book value, capital assets being depreciated	2,718,926	42,969	(4,087)	2,757,808
Net book value, all capital assets	\$ 4,015,814	\$ 42,969	\$ (4,087)	\$ 4,054,696

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	55,521
Highways and streets	168,352
Sanitation	9,799
Culture and recreation	3,525
Total depreciation expense	<u>\$ 249,757</u>

NOTE 7 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments of \$3,799,614 at June 30, 2013 consist of the most recent tax commitment that is due to the Holderness School District, Pemi-Baker Regional School District, and Grafton County.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

NOTE 8 – DEFERRED INFLOW OF RESOURCES

Deferred inflows of \$1,003,433 in the general fund at June 30, 2013 consist of the following:

Property taxes levied prior to their due date	\$ 884,830
Property tax receivables not collected within 60 days of the end of the fiscal year	116,824
Donations received in advance of eligible expenditures being made	1,779
Total deferred inflows of resources	<u>\$ 1,003,433</u>

NOTE 9 – LONG-TERM LIABILITIES

Changes in the Town's long-term liabilities consisted of the following for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
General obligation bond payable	\$ 350,000	\$ -	\$ (58,333)	\$ 291,667	\$ 58,333
Compensated absences	-	13,258	-	13,258	-
Total long-term liabilities	<u>\$ 350,000</u>	<u>\$ 13,258</u>	<u>\$ (58,333)</u>	<u>\$ 304,925</u>	<u>\$ 58,333</u>

Long term bond is comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate	Outstanding at June 30, 2013
General obligation bond payable:					
Transfer station	\$ 350,000	2011	2018	2.37%	<u>\$ 291,667</u>

The annual requirements to amortize the general obligation bond outstanding as of June 30, 2013, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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>\$ 291,667</u>	<u>\$ 20,738</u>	<u>\$ 312,405</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 10 – ENCUMBRANCES

Encumbrances outstanding at June 30, 2013 are as follows:

General fund:	
General government	\$ 13,200
Public safety	16,051
Sanitation	439
Capital outlay	25,880
Total encumbrances	<u>\$ 55,570</u>

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the government-wide Statement of Net Position at June 30, 2013 include the following:

Net investment in capital assets:	
Net property, buildings, and equipment	\$ 4,054,696
Less:	
General obligation bonds payable	(291,667)
Total net investment in capital assets	<u>3,763,029</u>
Restricted for perpetual care	14,041
Unrestricted	<u>2,001,651</u>
Total net position	<u><u>\$ 5,778,721</u></u>

NOTE 12 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at June 30, 2013 include the following:

Nonspendable:	
Nonmajor fund:	
Permanent - principal balance	\$ 4,750
Restricted:	
Nonmajor fund:	
Permanent - income balance	9,291
Committed:	
Major fund:	
General:	
Expendable trust	\$ 705,326
Voted appropriation - March 2013	242,500
Nonlapsing appropriations	<u>36,319</u>
	<u>984,145</u>
Nonmajor fund:	
Special revenue:	
Police special detail	<u>24,302</u>
Total committed fund balance	1,008,447
Assigned:	
Major fund:	
General:	
Encumbrances	\$ 19,251
Abatements	<u>5,670</u>
Total assigned fund balance	24,921
Unassigned:	
Major fund:	
General	<u>871,516</u>
Total governmental fund balances	<u><u>\$ 1,918,925</u></u>

NOTE 13 – 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.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
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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. For fiscal year 2013, all employees except police officers and firefighters were required to contribute 7% of earnable compensation. The contribution rates were 11.55% for police officers and 11.80% for firefighters. The Town's contribution rates for 2013 for pension and medical subsidy were as follows; police officers 19.95%; firefighter, 22.89%; all other employees, 8.80%.

The contribution requirements for the Town of Holderness for the fiscal years 2011, 2012, and 2013 were \$76,912, \$94,680, and \$94,262, respectively, which were paid in full in each year.

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to pension benefits described in the preceding note, the Town provides postemployment benefit options for health care, life insurance, dental insurance, and disability income 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, 2013 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 are unknown.

NOTE 15 – 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 2013, 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 pools, 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 January 1, 2013 to June 30, 2013 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, 2013 was \$21,756 for workers' compensation and \$25,117 for property/liability. The Town also received a premium holiday of \$20,903 for workers compensation during the year.

NOTE 16 – CONTINGENCIES

The Town participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

The following GASB pronouncements were implemented by the Town for the fiscal year ended June 30, 2013, which included the early implementation of GASB Statement No. 65. Only GASB Statement No. 63 and GASB Statement No. 65 impacted these financial statements:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010. 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.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
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GASB Statement No. 61, *The Financial Reporting Entity: Omnibus and Amendments of GASB Statements No. 14 and No. 34*, issued November 2010. 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. 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.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012, has an effective date of 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. Because GASB Statement No. 65 is so closely related to GASB Statement No. 63, implementing both as of June 30, 2013 is recommended.

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. 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 Town 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 Town 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.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued in June 2012, will be effective for the Town beginning with its fiscal year ending June 30, 2015. The guidance contained in this statement will change how governments calculate and report the costs and obligations associated with pensions in important ways. This replaces the requirements of Statements No. 27 and 50.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued in January 2013, will be effective for the Town beginning with its fiscal year ending June 30, 2015. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations that have been transferred or sold.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued in April 2013, will be effective for the Town beginning with the fiscal year ending June 30, 2015. The objective of this statement is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees.

TOWN OF HOLDERNESS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 18 – 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 February 7, 2014, the date the June 30, 2013 financial statements were available to be 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, 2013

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 1,698,876	\$ 1,709,740	\$ 10,864
Land use change	2,500	53,900	51,400
Timber	4,500	7,474	2,974
Other	6,500	6,201	(299)
Payment in lieu of taxes	3,000	2,000	(1,000)
Interest and penalties on taxes	35,000	46,947	11,947
Total from taxes	1,750,376	1,826,262	75,886
Licenses, permits, and fees:			
Business licenses, permits, and fees	10,000	13,571	3,571
Motor vehicle permit fees	345,000	360,565	15,565
Building permits	5,000	11,848	6,848
Other	5,000	5,962	962
Total from licenses, permits, and fees	365,000	391,946	26,946
Intergovernmental:			
State:			
Meals and rooms distribution	94,097	94,082	(15)
Highway block grant	62,162	62,004	(158)
State and federal forest land reimbursement	16	11	(5)
Other	-	6,597	6,597
Total from intergovernmental	156,275	162,694	6,419
Charges for services:			
Income from departments	122,850	140,636	17,786
Miscellaneous:			
Interest on investments	20,600	20,028	(572)
Insurance dividends and reimbursements	39,899	23,732	(16,167)
Other	-	32,930	32,930
Total from miscellaneous	60,499	76,690	16,191
Other financing sources:			
Transfers in	359,100	327,485	(31,615)
Total revenues and other financing sources	2,814,100	\$ 2,925,713	\$ 111,613
Unassigned fund balance used to reduce tax rate	82,000		
Total revenues, other financing sources, and use of fund balance	\$ 2,896,100		

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, 2013

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 123,607	\$ 113,768	\$ -	\$ 9,839
Election and registration	-	74,000	70,171	-	3,829
Financial administration	2,700	63,650	64,337	-	2,013
Revaluation of property	10,000	43,600	37,079	10,000	6,521
Legal	-	15,000	26,756	-	(11,756)
Personnel administration	-	345,239	306,400	-	38,839
Planning and zoning	-	18,450	11,983	-	6,467
General government buildings	-	15,500	12,298	3,200	2
Cemeteries	-	3,150	2,360	-	790
Insurance, not otherwise allocated	-	26,098	25,117	-	981
Other	-	7,000	-	-	7,000
Total general government	12,700	735,294	670,269	13,200	64,525
Public safety:					
Police	-	410,115	412,108	7,879	(9,872)
Ambulance	-	46,675	46,215	-	460
Fire	8,000	165,700	162,788	7,172	3,740
Building inspection	-	16,600	-	-	16,600
Emergency management	-	1,800	577	1,000	223
Total public safety	8,000	640,890	621,688	16,051	11,151
Highways and streets:					
Highways and streets	4,000	286,350	290,935	-	(585)
Street lighting	-	5,300	4,804	-	496
Total highways and streets	4,000	291,650	295,739	-	(89)
Sanitation:					
Solid waste collection	1,205	176,525	148,770	439	28,521
Other	-	3,800	1,848	-	1,952
Total sanitation	1,205	180,325	150,618	439	30,473
Health:					
Administration	-	-	13,297	-	(13,297)
Pest control	-	1,500	1,500	-	-
Health agencies	-	26,280	26,280	-	-
Total health	-	27,780	41,077	-	(13,297)
Welfare:					
Direct assistance	-	28,000	13,404	-	14,596
Culture and recreation:					
Parks and recreation	-	66,700	65,989	-	711
Library	1,200	117,400	115,414	-	3,186
Patriotic purposes	-	1,200	821	-	379
Total culture and recreation	1,200	185,300	182,224	-	4,276
Conservation	1,100	3,425	4,218	-	307
Debt service:					
Principal of long-term debt	-	58,333	58,333	-	-
Interest on long-term debt	-	8,503	8,502	-	1
Total debt service	-	66,836	66,835	-	1

(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, 2013

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Capital outlay:					
Buildings	-	164,100	139,403	-	24,697
Machinery	-	10,000	12,205	-	(2,205)
Improvements, other than buildings	17,495	190,500	176,980	25,880	5,135
Total capital outlay	17,495	364,600	328,588	25,880	27,627
Other financing uses:					
Transfers out	-	372,000	372,000	-	-
Total appropriations, expenditures, other financing uses, and encumbrances	\$ 45,700	\$ 2,896,100	\$ 2,746,660	\$ 55,570	\$ 139,570

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, 2013

Unassigned fund balance, beginning		\$ 1,029,038
Changes:		
Unassigned fund balance used to reduce 2013 tax rate		(82,000)
2013 Budget summary:		
Revenue surplus (Schedule 1)	\$ 111,613	
Unexpended balance of appropriations (Schedule 2)	<u>139,570</u>	
2013 Budget surplus		251,183
Decrease in nonspendable fund balance		5,138
Increase in committed fund balance		(232,600)
Decrease in assigned (non-encumbrances) fund balance		<u>17,581</u>
Unassigned fund balance, ending		<u>988,340</u>
<i>Reconciliation of Non-GAAP Basis to GAAP Basis:</i>		
To comply with generally accepted accounting principles by deferring property taxes not collected within 60 days of fiscal year-end		<u>(116,824)</u>
Unassigned fund balance, ending, GAAP basis (Exhibit C-1)		<u><u>\$ 871,516</u></u>

SCHEDULE 4
TOWN OF HOLDERNESS, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2013

	Special Revenue Fund		
	Police Detail	Permanent Fund	Total
ASSETS			
Cash and cash equivalents	\$ 24,302	\$ -	\$ 24,302
Investments	-	14,041	14,041
Total assets	<u>\$ 24,302</u>	<u>\$ 14,041</u>	<u>\$ 38,343</u>
FUND BALANCES			
Nonspendable	\$ -	\$ 4,750	\$ 4,750
Restricted	-	9,291	9,291
Committed	24,302	-	24,302
Total fund balances	<u>\$ 24,302</u>	<u>\$ 14,041</u>	<u>\$ 38,343</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, 2013

	Special Revenue Fund		
	Police Detail	Permanent Fund	Total
Revenues:			
Intergovernmental	\$ 1,022	\$ -	\$ 1,022
Charges for services	10,195	-	10,195
Miscellaneous	-	10	10
Total revenues	11,217	10	11,227
Expenditures:			
Current:			
Public safety	9,630	-	9,630
Net change in fund balances	1,587	10	1,597
Fund balances, beginning	22,715	14,031	36,746
Fund balances, ending	<u>\$ 24,302</u>	<u>\$ 14,041</u>	<u>\$ 38,343</u>