

TOWN OF SANDOWN, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Sandown, New Hampshire

Additional Offices:
Andover, MA
Greenfield, MA
Manchester, NH
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Town of Sandown, New Hampshire, as of and for the year ended December 31, 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

The Town's 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 entity'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 audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Town of Sandown, New Hampshire, as of December 31, 2013, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Melanson Heath

September 3, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Sandown, New Hampshire, we offer readers this narrative overview and analysis of the financial activities of the Town for the year ended December 31, 2013.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position 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 changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities include general government, public safety, highways and streets, sanitation, health and welfare, culture and recreation, and conservation.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories: governmental funds and fiduciary funds.

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

able at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's programs.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$8,700,925 (i.e., net position), a change of \$858,373 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$2,608,648 a change of \$310,847 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$886,484, a change of \$(143,650) in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year were \$725,000.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

NET POSITION

	Governmental <u>Activities</u>	
	<u>2013</u>	<u>2012</u>
Current assets	\$ 7,760,034	\$ 7,133,642
Noncurrent assets	7,143,079	6,697,814
Total assets	<u>14,903,113</u>	<u>13,831,456</u>
Current liabilities	5,483,283	5,206,779
Noncurrent liabilities	718,905	782,125
Total liabilities	<u>6,202,188</u>	<u>5,988,904</u>
Net position:		
Net investment in capital assets	6,197,389	5,708,516
Restricted	653,758	677,562
Unrestricted	<u>1,849,778</u>	<u>1,456,474</u>
Total net position	<u>\$ 8,700,925</u>	<u>\$ 7,842,552</u>

CHANGE IN NET POSITION

	Governmental <u>Activities</u>	
	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues:		
Charges for services	\$ 375,344	\$ 333,733
Operating grants and contributions	137,910	147,420
General revenues:		
Property taxes	2,588,071	2,308,035
Licenses and permits	1,077,800	992,365
Penalties, interest, and other taxes	63,051	139,900
Grants and contributions not restricted to specific programs	273,102	271,049
Investment income	6,034	11,269
Miscellaneous	81,462	28,736
Permanent fund contributions	<u>400</u>	<u>3,200</u>
Total revenues	4,603,174	4,235,707

(continued)

(continued)

	<u>2013</u>	<u>2012</u>
Expenses:		
General government	1,118,825	1,145,194
Public safety	830,036	816,247
Highway and streets	708,657	633,815
Sanitation	399,643	365,313
Health and welfare	74,405	85,226
Culture and recreation	564,688	500,267
Conservation	13,013	14,180
Interest	35,534	38,080
Total expenses	<u>3,744,801</u>	<u>3,598,322</u>
Change in net position	858,373	637,385
Net position - beginning of year	<u>7,842,552</u>	<u>7,205,167</u>
Net position - end of year	<u>\$ 8,700,925</u>	<u>\$ 7,842,552</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$8,700,925, a change of \$858,373 from the prior year.

The largest portion of net position \$6,197,389 reflects our investment in capital assets (e.g., land, library books, infrastructure, buildings and improvements, machinery, equipment and furnishings, land improvements, and vehicles) less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$653,758 represents resources that are subject to external restrictions on how they may be used. The remaining balance, unrestricted net position, may be used to meet the Town's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$858,373. Key elements of this change are as follows:

General fund revenues in excess of expenditures	\$ 334,651
Nonmajor governmental funds expenditures in excess of revenues	(23,804)
Depreciation expense in excess of principal debt service	(146,340)
Capital asset additions, net of disposals	635,213
Change in compensated absence liability	(2,199)
Other	<u>60,852</u>
Total	<u><u>\$ 858,373</u></u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$2,608,648, a change of \$310,847 in comparison with the prior year. Key elements of this change are as follows:

General fund revenues in excess of expenditures	\$ 334,651
Nonmajor governmental funds expenditures excess of revenues	<u>(23,804)</u>
Total	<u><u>\$ 310,847</u></u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$886,484, while total fund balance was \$1,954,890. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>12/31/13</u>	<u>12/31/12</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 886,484	\$ 1,030,134	\$ (143,650)	23.4%
Total fund balance	\$ 1,954,890	\$ 1,620,239	\$ 334,651	51.5%

The fund balance of the general fund changed by \$334,651 during the current fiscal year. Key factors in this change are as follows:

Revenues greater than budget	\$	112,358
Expenditures less than budget		94,615
Use of fund balance as a funding source		(329,037)
Change in encumbrances		6,148
Change in capital reserve fund		431,292
Other GAAP adjustments		<u>19,275</u>
Total	\$	<u><u>334,651</u></u>

Included in the total general fund balance is the Town's capital reserve account with the following balances:

	<u>12/31/13</u>	<u>12/31/12</u>	<u>Change</u>
Capital reserve	\$ <u>971,883</u>	\$ <u>540,591</u>	\$ <u>431,292</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$10,888. This change relates to a use of voted reserves (fund balance).

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year-end amounted to \$6,979,514 (net of accumulated depreciation), a change of \$426,303 from the prior year. This investment in capital assets includes land, library books, infrastructure, buildings and improvements, machinery, equipment and furnishings, land improvements, and vehicles.

Major capital asset events during the current fiscal year included the following:

Acquisitions:

Building improvements	\$	12,998
Machinery, equipment, and furnishings		15,912
Land improvements		378,954
Vehicles		77,612
Land		145,352
Construction in progress		<u>4,385</u>
		635,213
Annual Depreciation		<u>(208,910)</u>
Total	\$	<u><u>426,303</u></u>

Long-term debt. At the end of the current fiscal year, bonds payable totaled \$725,000, all of which was backed by the full faith and credit of the Town.

Additional information on capital assets and long-term debt can be found in the notes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Sandown's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town of Sandown, New Hampshire
Office of the Finance Director
320 Main Street
Sandown, New Hampshire 03873

TOWN OF SANDOWN, NEW HAMPSHIRE

STATEMENT OF NET POSITION

DECEMBER 31, 2013

	<u>Governmental Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 7,122,801
Receivables, net of allowance for uncollectibles:	
Property taxes	620,873
Departmental and other	6,750
Prepaid expenses	9,610
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	163,565
Capital assets:	
Land and construction in progress	3,942,833
Other capital assets, net of accumulated depreciation	<u>3,036,681</u>
TOTAL ASSETS	14,903,113
LIABILITIES	
Current:	
Accounts payable	71,115
Retainage payable	10,516
Accrued liabilities	45,228
Due to state	1,621
Due to school district	5,258,939
Accrued interest	12,808
Current portion of long-term liabilities:	
Capital lease payable	13,220
Bonds payable	50,000
Compensated absences	19,836
Noncurrent:	
Capital lease payable, net of current portion	43,905
Bonds payable, net of current portion	<u>675,000</u>
TOTAL LIABILITIES	6,202,188
NET POSITION	
Net investment in capital assets	6,197,389
Restricted for:	
Grants and other statutory restrictions	597,422
Permanent funds:	
Nonexpendable	40,325
Expendable	16,011
Unrestricted	<u>1,849,778</u>
TOTAL NET POSITION	\$ <u>8,700,925</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SANDOWN, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2013

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 6,559,737	\$ 563,064	\$ 7,122,801
Receivables:			
Property taxes	916,438	-	916,438
Departmental and other	6,740	10	6,750
Due from other funds	82,879	141,386	224,265
Prepaid expenses	<u>9,610</u>	<u>-</u>	<u>9,610</u>
TOTAL ASSETS	\$ <u>7,575,404</u>	\$ <u>704,460</u>	\$ <u>8,279,864</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 71,115	\$ -	\$ 71,115
Retainage payable	10,516	-	10,516
Accrued liabilities	45,228	-	45,228
Due to other funds	173,563	50,702	224,265
Due to state	1,621	-	1,621
Due to school district	<u>5,258,939</u>	<u>-</u>	<u>5,258,939</u>
TOTAL LIABILITIES	5,560,982	50,702	5,611,684
Deferred Inflows of Resources	59,532	-	59,532
Fund Balances:			
Nonspendable	9,610	40,325	49,935
Restricted	-	613,433	613,433
Committed	1,010,509	-	1,010,509
Assigned	48,287	-	48,287
Unassigned	<u>886,484</u>	<u>-</u>	<u>886,484</u>
TOTAL FUND BALANCES	<u>1,954,890</u>	<u>653,758</u>	<u>2,608,648</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ <u>7,575,404</u>	\$ <u>704,460</u>	\$ <u>8,279,864</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SANDOWN, NEW HAMPSHIRE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

DECEMBER 31, 2013

Total governmental fund balances	\$ 2,608,648
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,979,514
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	(72,468)
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(12,808)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Capital lease payable	(57,125)
Bonds payable	(725,000)
Compensated absences	<u>(19,836)</u>
Net position of governmental activities	\$ <u><u>8,700,925</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SANDOWN, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 2,387,212	\$ 141,000	\$ 2,528,212
Licenses and permits	1,077,800	-	1,077,800
Penalties, interest, and other taxes	63,051	-	63,051
Charges for services	102,430	272,914	375,344
Intergovernmental	411,012	-	411,012
Investment income	5,019	1,015	6,034
Miscellaneous	81,462	-	81,462
Permanent fund contributions	-	400	400
Total Revenues	<u>4,127,986</u>	<u>415,329</u>	<u>4,543,315</u>
Expenditures:			
Current:			
General government	1,062,517	103,306	1,165,823
Public safety	740,441	65,410	805,851
Highways and streets	929,565	-	929,565
Sanitation	399,643	-	399,643
Health and welfare	74,405	-	74,405
Culture and recreation	442,428	119,741	562,169
Conservation	7,689	150,676	158,365
Capital outlay	50,122	-	50,122
Debt service:			
Principal	50,000	-	50,000
Interest	36,525	-	36,525
Total Expenditures	<u>3,793,335</u>	<u>439,133</u>	<u>4,232,468</u>
Excess (deficiency) of revenues over expenditures and change in fund balance	334,651	(23,804)	310,847
Fund Equity, at Beginning of Year	<u>1,620,239</u>	<u>677,562</u>	<u>2,297,801</u>
Fund Equity, at End of Year	<u>\$ 1,954,890</u>	<u>\$ 653,758</u>	<u>\$ 2,608,648</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SANDOWN, NEW HAMPSHIRE

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2013

Net changes in fund balances - total governmental funds	\$ 310,847														
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td style="padding-left: 40px;">Capital purchases, net</td> <td style="text-align: right;">635,213</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(208,910)</td> </tr> </table> Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (e.g., property taxes) differ between the two statements. <table> <tr> <td style="padding-left: 40px;"></td> <td style="text-align: right;">59,861</td> </tr> </table> The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td style="padding-left: 40px;">Repayments of bonds</td> <td style="text-align: right;">50,000</td> </tr> <tr> <td style="padding-left: 40px;">Repayment of capital lease</td> <td style="text-align: right;">12,570</td> </tr> </table> In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table> <tr> <td style="padding-left: 40px;"></td> <td style="text-align: right;">991</td> </tr> </table> Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. <table> <tr> <td style="padding-left: 40px;"></td> <td style="text-align: right;"><u>(2,199)</u></td> </tr> </table> 		Capital purchases, net	635,213	Depreciation	(208,910)		59,861	Repayments of bonds	50,000	Repayment of capital lease	12,570		991		<u>(2,199)</u>
Capital purchases, net	635,213														
Depreciation	(208,910)														
	59,861														
Repayments of bonds	50,000														
Repayment of capital lease	12,570														
	991														
	<u>(2,199)</u>														
Change in net position of governmental activities	\$ <u><u>858,373</u></u>														

The accompanying notes are an integral part of these financial statements.

TOWN OF SANDOWN, NEW HAMPSHIRE

GENERAL FUND

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

FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts				Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original Budget	From Prior Years' Budgets	Approved Transfers	Final Budget		
Revenues and Other Sources:						
Property taxes	\$ 2,367,937	\$ -	\$ -	\$ 2,367,937	\$ 2,367,937	\$ -
Licenses and permits	1,031,720	-	-	1,031,720	1,077,800	46,080
Penalties, interest, and other taxes	60,000	-	-	60,000	63,051	3,051
Charges for services	102,549	-	-	102,549	102,430	(119)
Intergovernmental	411,346	-	-	411,346	411,012	(334)
Investment income	500	-	-	500	218	(282)
Miscellaneous	17,000	-	-	17,000	80,962	63,962
Other financing sources:						
Use of fund balance	318,149	10,888	-	329,037	329,037	-
Total Revenues and Other Sources	4,309,201	10,888	-	4,320,089	4,432,447	112,358
Expenditures and Other Uses:						
Current:						
General government	1,095,677	6,503	-	1,102,180	1,068,066	34,114
Public safety	767,170	-	-	767,170	740,441	26,729
Highways and streets	665,388	4,385	1,278	671,051	682,061	(11,010)
Sanitation	403,358	-	-	403,358	399,643	3,715
Health and welfare	88,538	-	-	88,538	74,405	14,133
Culture and recreation	455,672	-	-	455,672	437,057	18,615
Conservation	8,008	-	-	8,008	7,689	319
Capital outlay	51,400	-	(1,278)	50,122	50,122	-
Debt service:						
Principal	50,000	-	-	50,000	50,000	-
Interest	44,525	-	-	44,525	36,525	8,000
Other financing uses:						
Transfers out	679,465	-	-	679,465	679,465	-
Total Expenditures and Other Uses	4,309,201	10,888	-	4,320,089	4,225,474	94,615
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ -	\$ -	\$ 206,973	\$ 206,973

The accompanying notes are an integral part of these financial statements.

TOWN OF SANDOWN, NEW HAMPSHIRE
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2013

	Agency Funds
ASSETS	
Cash and short-term investments	\$ <u>49,348</u>
Total Assets	\$ <u><u>49,348</u></u>
LIABILITIES	
Escrow and performance deposits	\$ <u>49,348</u>
Total Liabilities	\$ <u><u>49,348</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SANDOWN, NEW HAMPSHIRE

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Sandown, New Hampshire (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2013, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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

Fund Financial Statements

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and permits.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *general fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Agency Fund* is used to account for money held by the Town on behalf of others (e.g., escrow and performance deposits).

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

E. Interfund Receivables and Payables

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

F. Capital Assets

Capital assets, which include land, library books, infrastructure, buildings and improvements, machinery, equipment and furnishings, land improvements, and vehicles, are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 (except for library books which are grouped annually) and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Library books	5
Infrastructure	50
Buildings and improvements	20 - 40
Machinery, equipment, and furnishings	5 - 15
Land improvements	20
Vehicles	5 - 15

G. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation pay benefits. All vested vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

H. Long-Term Obligations

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

I. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., tax deeded property or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.

- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

J. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Town's budget is prepared by the Selectmen's Office with the cooperation of various department heads. It is then submitted to the Budget Committee, in accordance with the Municipal Budget Law. After reviewing the budget, the Committee holds a public hearing for discussion.

The final version of the budget is then submitted for approval at the annual Town meeting. The approved budget is subsequently reported to the State of New Hampshire on the statement of appropriation form in order to establish the current property tax rate.

The Selectmen cannot increase the total of the approved budget; however, they have the power to reclassify its components when necessary.

B. Budgetary Basis

The General Fund final appropriation appearing on the “Budget and Actual” page of the fund financial statements represents the final amended budget after all transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 4,127,986	\$ 3,793,335
Adjust tax revenue to accrual basis	(19,275)	-
Reverse 2012 appropriation carryforwards expended in 2013	-	6,148
To reverse reserve fund activity	(5,301)	(253,474)
To record budgeted transfers	-	679,465
To record use of fund balance	<u>329,037</u>	<u>-</u>
Budgetary Basis	<u>\$ 4,432,447</u>	<u>\$ 4,225,474</u>

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. RSA 48:16 limits “deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus”. The Town does not have a deposit policy for custodial credit risk.

As of December 31, 2013, \$62,141 of the Town's bank balance was exposed to custodial credit risk as uninsured or uncollateralized.

4. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 73.8% of the estimated fair market value. Taxes are due on a semiannual basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the Tax Collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes.

Taxes receivable at December 31, 2013 consist of the following:

Property taxes:	
2013 levy	\$ 636,873
Unredeemed taxes	
2012 levy	121,839
2011 levy	80,943
2010 and prior tax liens	<u>76,783</u>
Total	<u>\$ 916,438</u>

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

5. Allowance for Doubtful Accounts

The property tax receivables reported in the accompanying entity-wide financial statements reflect an estimated allowance for doubtful accounts of \$132,000.

6. Interfund Fund Receivables/Payables

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

of the December 31, 2013 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 82,879	\$ 173,563
Nonmajor governmental funds	<u>141,386</u>	<u>50,702</u>
Total	<u>\$ 224,265</u>	<u>\$ 224,265</u>

7. Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Library books	\$ 156,866	\$ -	\$ -	\$ 156,866
Infrastructure	417,983	-	-	417,983
Buildings	591,748	-	-	591,748
Building improvements	456,101	12,998	13,198	482,297
Machinery, equipment, and furnishings	395,975	15,912	-	411,887
Land improvements	1,556,305	378,954	-	1,935,259
Vehicles	<u>980,677</u>	<u>77,612</u>	<u>-</u>	<u>1,058,289</u>
Total capital assets, being depreciated	4,555,655	485,476	13,198	5,054,329
Less accumulated depreciation for:				
Library books	(156,866)	-	-	(156,866)
Infrastructure	(53,190)	(8,998)	-	(62,188)
Buildings	(341,169)	(13,617)	-	(354,786)
Building improvements	(180,897)	(19,924)	-	(200,821)
Machinery, equipment, and furnishings	(234,138)	(32,411)	-	(266,549)
Land improvements	(145,647)	(79,394)	-	(225,041)
Vehicles	<u>(696,831)</u>	<u>(54,566)</u>	<u>-</u>	<u>(751,397)</u>
Total accumulated depreciation	<u>(1,808,738)</u>	<u>(208,910)</u>	<u>-</u>	<u>(2,017,648)</u>
Total capital assets, being depreciated, net	2,746,917	276,566	13,198	3,036,681
Capital assets, not being depreciated:				
Land	3,782,499	145,352	-	3,927,851
Construction in progress	<u>23,795</u>	<u>4,385</u>	<u>(13,198)</u>	<u>14,982</u>
Total capital assets, not being depreciated	<u>3,806,294</u>	<u>149,737</u>	<u>(13,198)</u>	<u>3,942,833</u>
Governmental activities capital assets, net	<u>\$ 6,553,211</u>	<u>\$ 426,303</u>	<u>\$ -</u>	<u>\$ 6,979,514</u>

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:	
General government	\$ 11,812
Public safety	65,514
Public works	122,091
Culture and recreation	<u>9,493</u>
Total depreciation expense - governmental activities	<u>\$ 208,910</u>

8. Accounts Payable

Accounts payable represent 2013 expenditures paid after December 31, 2013.

9. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the Town of Sandown that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The deferred inflow of resources balances as of December 31, 2013 represents \$59,532 of unearned tax revenue.

10. Capital Lease Obligations

The Town is the lessee of certain obligations under a capital lease expiring in 2017. Total capital lease obligations payable at December 31, 2013 were \$57,125.

The annual payments to repay the capital lease outstanding as of December 31, 2013 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 13,220	\$ 2,952	\$ 16,172
2015	13,905	2,267	16,172
2016	14,621	1,551	16,172
2017	<u>15,379</u>	<u>793</u>	<u>16,172</u>
Total	<u>\$ 57,125</u>	<u>\$ 7,563</u>	<u>\$ 64,688</u>

The General Fund has been designated as the source that will repay the capital lease outstanding as of December 31, 2013.

11. Long-Term Debt

A. General Obligation Bonds

The Government has issued general obligation bonds to provide funds for the acquisition of land. General obligation bonds currently outstanding are as follows:

	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>12/31/13</u>
Minton property purchase	08/15/28	4.00% - 5.25%	\$ <u>725,000</u>

B. Future Debt Service

The annual payments to repay the bonds payable outstanding as of December 31, 2013 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 50,000	\$ 33,900	\$ 83,900
2015	50,000	31,275	81,275
2016	50,000	28,650	78,650
2017	50,000	26,025	76,025
2018	50,000	23,400	73,400
2019 - 2023	250,000	81,438	331,438
2024 - 2028	<u>225,000</u>	<u>29,981</u>	<u>254,981</u>
Total	\$ <u>725,000</u>	\$ <u>254,669</u>	\$ <u>979,669</u>

The General Fund has been designated as the source that will repay the governmental-type general obligation bond outstanding as of December 31, 2013.

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2013, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>1/1/13</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>12/31/13</u>	Less Current Portion	Equals Long-Term Portion <u>12/31/13</u>
<u>Governmental Activities</u>						
Capital lease payable	\$ 70	\$ -	\$ (12)	\$ 58	\$ (13)	\$ 45
Bonds payable	775	-	(50)	725	(50)	675
Compensated absences	17	2	-	19	(19)	-
Totals	\$ <u>862</u>	\$ <u>2</u>	\$ <u>(62)</u>	\$ <u>802</u>	\$ <u>(82)</u>	\$ <u>720</u>

12. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

13. Fund Balances

The following is a summary of the Town's fund balances at December 31, 2013:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:			
Prepaid expenses	\$ 9,610	\$ -	\$ 9,610
Nonexpendable permanent funds	<u>-</u>	<u>40,325</u>	<u>40,325</u>
Total Nonspendable	9,610	40,325	49,935
Restricted:			
Revolving funds	-	597,422	597,422
Expendable permanent funds	<u>-</u>	<u>16,011</u>	<u>16,011</u>
Total Restricted Funds	-	613,433	613,433
Committed:			
Culvert replacement Wells Village Road - 2012 WA 10	38,626	-	38,626
Capital reserve fund	<u>971,883</u>	<u>-</u>	<u>971,883</u>
Total Committed Funds	1,010,509	-	1,010,509
Assigned:			
Subsequent year budget	42,139	-	42,139
Encumbrances	<u>6,148</u>	<u>-</u>	<u>6,148</u>
Total Assigned	48,287	-	48,287
Unassigned:			
Remaining fund balance	<u>886,484</u>	<u>-</u>	<u>886,484</u>
Total Unassigned	<u>886,484</u>	<u>-</u>	<u>886,484</u>
Total Fund Balance	<u>\$ 1,954,890</u>	<u>\$ 653,758</u>	<u>\$ 2,608,648</u>

14. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how undesignated fund balance is reported in accordance with the budgetary basis for reporting for the State of New Hampshire for tax rate setting purposes. The major difference is the State of New Hampshire considers revenues in connection with property tax receivables to be available to liquidate liabilities when billed rather than received.

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

GAAP basis balance	\$ 886,484
Deferred inflows	<u>59,532</u>
Tax Rate Setting Balance	<u>\$ 946,016</u>

15. Commitments and Contingencies

Outstanding Legal Issues - There are certain pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

16. Retirement System

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

A. Plan Description

Full-time employees participate in the State of New Hampshire Retirement System (the System), a multiple employer contributory pension plan and trust established in 1967 by RSA 100-A:2 which is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The System is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent

police officers within the State of New Hampshire are eligible and required to participate in the System. Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to *Group I*. Police officers and firefighters belong to *Group II*. All assets are held in a single trust and are available to each group, funding policies, vesting requirements, contribution requirements and plan assets available to pay benefits are disclosed in the System's annual report available from the New Hampshire Retirement System located at 54 Regional Drive, Concord, New Hampshire 03301-8507.

B. Funding Policy

Plan members are required to contribute a percentage of their gross earnings to the pension plan. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16. The Town's contributions to the System for the years ended December 31, 2013, 2012, and 2011 were \$140,902, \$107,384, and \$107,811, respectively, which were equal to its annual required contributions for this year.

17. Post-Employment Insurance Benefits

In addition to the pension benefits described, the Town provides post-employment insurance benefits, in accordance with state statute, to participating retirees. Presently the Town finances these benefits on the pay-as-you-go basis and does not contribute to a qualified plan (trust) as defined by *GASB Statement No. 43 Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*.

GASB Statement No. 45, Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions for the Town has been determined to be immaterial.

18. Related Party Transactions

During 2013, the Town had numerous employees who were related to each other. Additionally, in 2013, a member of the Board of Selectman and some other employees who also own businesses, provided services to the Town.

19. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

20. Implementation of New GASB Standards

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