

**TOWN OF MASON,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012**

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PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, major general fund, and the aggregate remaining fund information of the Town of Mason as of and for the year ended December 31, 2012, 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 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 adverse and unmodified audit opinions.

Basis for Adverse Opinion on Governmental Activities

As discussed in Note 1-B to the financial statements, management has not recorded the capital assets and related accumulated depreciation in the governmental activities, and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that capital assets, including infrastructure, be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities is not reasonably determinable.

As discussed in Note 16 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, net position and expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position, and expenses on the governmental activities is not readily determinable.

*Town of Mason
Independent Auditor's Report*

Adverse Opinion

In our opinion, because of the significance of the matters described in the "Basis for Adverse Opinion on Governmental Activities" paragraphs, the financial statements referred to above do not present fairly the financial position of the government-wide financial statements of the Town of Mason, as of December 31, 2012, or the changes in financial position thereof for the year then ended.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major general fund and the aggregate remaining fund information of the Town of Mason as of December 31, 2012, 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

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

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 Mason'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.

November 25, 2013

*Plodzik & Sanderson
Professional Association*

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF MASON, NEW HAMPSHIRE
Statement of Net Position
December 31, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 889,967
Investments	482,581
Other receivables, net of allowances for uncollectible	422,275
Prepaid items	237
Total assets	1,795,060
LIABILITIES	
Accounts payable	183
Intergovernmental payable	1,006,853
Accrued interest payable	5,307
Unearned revenue	27
Noncurrent obligations:	
Due within one year:	
Bonds/notes	61,276
Unamortized bond premium	800
Capital leases	18,373
Due in more than one year:	
Bonds/notes	140,485
Unamortized bond premium	2,400
Total liabilities	1,235,704
NET POSITION	
Restricted for:	
Perpetual care	174,958
Library purposes	28,707
Unrestricted	355,691
Total net position	\$ 559,356

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

EXHIBIT B
TOWN OF MASON, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended December 31, 2012

	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 432,623	\$ -	\$ -	\$ (432,623)
Public safety	407,695	17,365	5,736	(384,594)
Highways and streets	542,967	-	66,800	(476,167)
Sanitation	45,457	-	-	(45,457)
Health	1,500	-	-	(1,500)
Welfare	2,400	-	-	(2,400)
Culture and recreation	59,210	-	-	(59,210)
Conservation	10,884	-	734	(10,150)
Interest on long-term debt	18,697	-	-	(18,697)
Capital outlay	124,647	-	-	(124,647)
Total governmental activities	<u>\$ 1,646,080</u>	<u>\$ 17,365</u>	<u>\$ 73,270</u>	<u>(1,555,445)</u>
General revenues:				
Taxes:				
Property				1,192,202
Other				71,245
Motor vehicle permit fees				229,647
Licenses and other fees				6,825
Grants and contributions not restricted to specific programs				61,874
Miscellaneous				40,227
Total general revenues				<u>1,602,020</u>
Change in net position				46,575
Net position, beginning, as restated (see Note 14)				512,781
Net position, ending				<u>\$ 559,356</u>

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

EXHIBIT C-1
TOWN OF MASON, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
December 31, 2012

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 889,967	\$ -	\$ 889,967
Investments	208,198	274,383	482,581
Taxes receivable	415,450	-	415,450
Accounts receivable	6,825	-	6,825
Interfund receivable	-	6,500	6,500
Prepaid items	237	-	237
Total assets	<u>\$ 1,520,677</u>	<u>\$ 280,883</u>	<u>\$ 1,801,560</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 183	\$ -	\$ 183
Intergovernmental payable	1,006,853	-	1,006,853
Interfund payable	6,500	-	6,500
Deferred revenue	27	-	27
Total liabilities	<u>1,013,563</u>	<u>-</u>	<u>1,013,563</u>
Fund balances:			
Nonspendable	237	100,869	101,106
Restricted	28,707	74,089	102,796
Committed	150,919	105,925	256,844
Unassigned	327,251	-	327,251
Total fund balances	<u>507,114</u>	<u>280,883</u>	<u>787,997</u>
Total liabilities and fund balances	<u>\$ 1,520,677</u>	<u>\$ 280,883</u>	<u>\$ 1,801,560</u>

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

EXHIBIT C-2
TOWN OF MASON, NEW HAMPSHIRE
Reconciliation of Total Governmental Fund Balances to the Statement of Net Position
For the Fiscal Year Ended December 31, 2012

Total fund balances of governmental funds (Exhibit C-1)		\$ 787,997
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (6,500)	
Payables	<u>6,500</u>	-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(5,307)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Bonds/notes	\$ 201,761	
Unamortized bond premium	3,200	
Capital leases	<u>18,373</u>	(223,334)
Total net position of governmental activities (Exhibit A)		<u>\$ 559,356</u>

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

EXHIBIT C-3
TOWN OF MASON, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 1,256,947	\$ 6,500	\$ 1,263,447
Licenses and permits	236,472	-	236,472
Intergovernmental	134,982	162	135,144
Charges for services	17,365	-	17,365
Miscellaneous	32,575	7,652	40,227
Total revenues	<u>1,678,341</u>	<u>14,314</u>	<u>1,692,655</u>
Expenditures:			
Current:			
General government	432,623	-	432,623
Public safety	407,695	-	407,695
Highways and streets	551,827	-	551,827
Sanitation	45,457	-	45,457
Health	1,500	-	1,500
Welfare	2,400	-	2,400
Culture and recreation	59,210	-	59,210
Conservation	8,802	2,082	10,884
Debt service:			
Principal	78,458	-	78,458
Interest	21,889	-	21,889
Capital outlay	124,647	-	124,647
Total expenditures	<u>1,734,508</u>	<u>2,082</u>	<u>1,736,590</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(56,167)</u>	<u>12,232</u>	<u>(43,935)</u>
Other financing sources (uses):			
Transfers in	22,404	-	22,404
Transfers out	-	(22,404)	(22,404)
Total other financing sources and uses	<u>22,404</u>	<u>(22,404)</u>	<u>-</u>
Net change in fund balances	(33,763)	(10,172)	(43,935)
Fund balances, beginning, as restated (see Note 14)	540,877	291,055	831,932
Fund balances, ending	<u>\$ 507,114</u>	<u>\$ 280,883</u>	<u>\$ 787,997</u>

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

EXHIBIT C-4
TOWN OF MASON, 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 December 31, 2012

Net change in fund balances of governmental funds (Exhibit C-3)		\$ (43,935)
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	\$ (22,404)	
Transfers out	<u>22,404</u>	-
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 capital leases	\$ 27,087	
Repayment of bond principal	60,845	
Amortization of bond premium	<u>800</u>	88,732
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense		<u>1,778</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>\$ 46,575</u></u>

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

EXHIBIT D
TOWN OF MASON, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Change in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2012

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes	\$ 1,249,373	\$ 1,256,947	\$ 7,574
Licenses and permits	216,900	236,472	19,572
Intergovernmental	134,956	134,982	26
Charges for services	3,600	17,365	13,765
Miscellaneous	45,250	18,643	(26,607)
Total revenues	<u>1,650,079</u>	<u>1,664,409</u>	<u>14,330</u>
Expenditures:			
Current:			
General government	460,822	432,623	28,199
Public safety	401,995	407,695	(5,700)
Highways and streets	555,565	551,827	3,738
Sanitation	46,086	45,457	629
Health	2,525	1,500	1,025
Welfare	1,000	2,400	(1,400)
Culture and recreation	11,470	8,195	3,275
Conservation	2,001	8,802	(6,801)
Debt service:			
Principal	78,458	78,458	-
Interest	24,621	21,889	2,732
Capital outlay	134,500	134,147	353
Total expenditures	<u>1,719,043</u>	<u>1,692,993</u>	<u>26,050</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(68,964)</u>	<u>(28,584)</u>	<u>40,380</u>
Other financing sources (uses):			
Transfers in	27,714	28,118	404
Transfers out	(77,101)	(75,831)	1,270
Total other financing sources and uses	<u>(49,387)</u>	<u>(47,713)</u>	<u>1,674</u>
Net change in fund balances	<u>\$ (118,351)</u>	(76,297)	<u>\$ 42,054</u>
Increase in nonspendable fund balance		(237)	
Decrease in committed fund balance		43,536	
Unassigned fund balance, beginning, as restated (see Note 14)		360,249	
Unassigned fund balance, ending		<u>\$ 327,251</u>	

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

EXHIBIT E
TOWN OF MASON, NEW HAMPSHIRE
Fiduciary Funds
Statement of Fiduciary Net Position
December 31, 2012

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	\$ 4,818
Investments	<u>55,311</u>
Total assets	<u>60,129</u>
LIABILITIES	
Due to other governmental units	55,311
Due to others	<u>4,818</u>
Total liabilities	<u>60,129</u>
NET POSITION	<u><u>\$ -</u></u>

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

TOWN OF MASON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012

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TOWN OF MASON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

1-A Reporting Entity

The Town of Mason is a municipal corporation governed by an elected 3-member Board of Selectmen. The reporting entity is comprised of the primary government and any other organizations (*component units*) that are included to ensure that the financial statements are not misleading.

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

1-B Basis of Presentation

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

The Statement of Net Position presents the financial position of the governmental activities of the Town at year-end. This statement includes all of the Town's assets, liabilities, and net position, with the exception of the capital assets and related accumulated depreciation, which have been omitted because they have not been inventoried at historical cost. In addition, long-term costs of retirement, health care, and obligations for other postemployment benefits have also been omitted because the liability and expense have not been determined. Net position is reported as one of two categories: restricted or unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different functions of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function, and therefore, are clearly identifiable to a particular function. Program revenues include (1) charges to customers or applicants for goods received, services rendered or privileges provided, and (2) grants and contributions that are restricted to meeting operational requirements of a particular function. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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

TOWN OF MASON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012

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

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

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

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

Fiduciary Fund Types – These funds account for assets held by the Town as a trustee or agent for individuals, private organizations, and other units of governments. Fiduciary fund types are not part of the reporting entity in the government-wide financial statements, but are reported in a separate Statement of Fiduciary Net Position. These funds are as follows:

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

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

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

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

Fiduciary Funds - The Town reports the following fiduciary funds:

Agency Funds:

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

Planning Board Escrow Funds – account for funds held in a custodial capacity for work done by developers in Town.

1-C Measurement Focus

Government-wide and Fiduciary Fund Financial Statements – The government-wide and fiduciary fund financial statements, except for agency funds which have no measurement focus, are reported using the economic resources measurement focus 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 – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are susceptible to accrual, that is, when they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues (except property taxes mentioned below under Revenues-Nonexchange Transactions) to be available if they are collected within 60 days of the end of the current period. Property taxes, grants and contracts, and interest associated with the current period are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Town. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

TOWN OF MASON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012

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

Revenues – Nonexchange Transactions – Nonexchange transactions in which the Town receives value without directly giving equal value in return include property taxes, certain fees, grants, and donations. Revenue from grants and donations is recognized in the fiscal year in which all grantor imposed eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Town must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions also must be available before it can be recognized (Interpretation No. 1, as modified, 60-day rule), with the exception of property taxes which are committed and recognized as revenue in order to offset the liability due the school district to be paid in monthly installments over the next six months. This practice is consistent with the previous years.

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.

The treasurer is required to deposit such moneys in solvent banks in state or the Public Deposit Investment Pool pursuant to New Hampshire RSA 383.22. Funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

1-E Investments

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

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

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

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

Investments 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 December 31. 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 and accounts.

1-G Interfund Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as “interfund receivables and payables.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

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1-H Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

1-I Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as *restricted net position* and *unrestricted net position* in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider *restricted net position* to have been depleted before *unrestricted net position* is applied.

1-J Fund Balance Flow Assumptions

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

1-K Revenues and Expenditures/Expenses

General Revenues - General revenues represent the following; tax revenue recorded when a warrant for collection is committed to the tax collector, motor vehicle fees, licenses, fees, unrestricted grants, investment income and other miscellaneous items recorded when collected/received.

Program Revenues - Amounts recorded as program revenues include; charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a function or segment, and grants and contributions (including special assessments) that are restricted to meeting the operational requirements of a particular function or segment.

Property Taxes - Property tax billings occur semiannually and are based on the assessed inventory values as of April 1 of each year. Billings for the year were due on July 12, 2012 and November 13, 2012. 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, Mason School District, and Hillsborough 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	\$ 158,334,151
For all other taxes	\$ 160,094,251

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The tax rates and amounts assessed for the year ended December 31, 2012 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$7.82	\$ 1,251,710
School portion:		
State of New Hampshire	\$2.38	377,602
Local	\$13.40	2,144,912
County portion	\$1.15	183,919
Total		\$ 3,958,143

1-L Deferred/Unearned Revenue

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

1-M Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statements. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method.

1-N Claims and Judgments

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

1-O Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

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

1-P Equity/Fund Balance Policy/Classifications

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

- a) *Restricted net position* – Consists of net assets with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- b) *Unrestricted net position* – All other net assets that do not meet the definition of “restricted.”

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Fund Balance Policy/Classifications – In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balance of governmental funds is reported in various 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 prepaid items and 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 its library and the income portion of permanent funds as being restricted because their use is restricted by Federal/State statutes for expenditures.

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. Expendable trust, reservation commission, forestry funds, in addition to 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 does not have any assigned funds.

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

1-Q Impact of Recently Issued Accounting Principles

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The Statement of Net Assets is renamed the Statement of Net Position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

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.

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

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. In the fiscal year 2012, \$118,351 of the beginning general fund unassigned fund balance was applied for this purpose.

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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)	\$ 1,692,527
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
Library fund miscellaneous revenue	2,715
Expendable trust fund miscellaneous revenue	11,217
Eliminate transfers between general and expendable trust funds	(5,714)
Per Exhibit C-3 (GAAP basis)	<u>\$ 1,700,745</u>
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 1,768,824
Adjustment:	
Basis differences:	
Encumbrances, ending	(9,500)
GASB Statement No. 54:	
Library fund expenditures	51,015
Eliminate transfers between general and expendable trust funds	(27,468)
Eliminated transfers between general and library fund	(48,363)
Per Exhibit C-3 (GAAP basis)	<u>\$ 1,734,508</u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2012, \$676,630 of the Town's bank balances of \$966,683 was exposed to custodial credit risk as uninsured and uncollateralized.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 889,967
Cash per Statement of Fiduciary Net Position (Exhibit E)	4,818
Total cash and cash equivalents	<u>\$ 894,785</u>

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NOTE 4 – INVESTMENTS

Note 1-G, describes statutory requirements covering the investment of the Town funds. The Town also maintains a portfolio of intermediate 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 intermediate maturity investments. As of December 31, 2012, the Town had the following investments:

Certificate of deposit	\$ 367,508
New Hampshire Public Deposit Investment Pool	161,624
Fixed income money market mutual funds	8,760
	<u>\$ 537,892</u>

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that change could materially affect the amounts reported in the Statement of Net Position.

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of December 31, 2012 the Town's investments had the following maturities:

Type of investment:	Fair Value	Investment Maturities (in Years)	
		Less than 1	1-5
Certificate of deposit	\$ 368,228	\$ 75,915	\$ 292,313
New Hampshire Public Deposit Investment Pool	161,624	-	-
Fixed income money market mutual funds	8,760	-	-
	<u>\$ 538,612</u>	<u>\$ 75,915</u>	<u>\$ 292,313</u>

Investment reconciliation:

Investment per Statement of Net Position (Exhibit A)	\$ 482,581
Investment per Statement of Fiduciary Net Position (Exhibit E)	55,311
Total investments	<u>\$ 537,892</u>

NOTE 5 – TAXES RECEIVABLE

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of December 31, 2012. The amount has been reduced by an allowance for an estimated uncollectible amount of \$23,000. Taxes receivable by year are as follows:

Property:	
Levy of 2012	\$ 266,884
Unredeemed (under tax lien):	
Levy of 2011	124,161
Levy of 2010	38,335
Levies of 2009 and prior	1,170
Land use change	7,900
Less: allowance for estimated uncollectible taxes	(23,000)
Net taxes receivable	<u>\$ 415,450</u>

NOTE 6 – OTHER RECEIVABLES

Receivables at December 31, 2012, consisted of accounts (billings for police detail services). Receivables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

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NOTE 7 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
Nonmajor	General	\$ 6,500

The outstanding balances among funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers - The composition of interfund transfers for the year ended December 31, 2012 is as follows;

	Transfers In: General Fund
Transfers out: Nonmajor funds	\$ 22,404

During the year, transfers are used to (1) move revenues from the fund with collection authority to the fund responsible for expenditure and (2) move general fund resources to provide an annual subsidy.

NOTE 8 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments of \$1,006,853 at December 31, 2012 consist of the balance of the 2012-2013 district assessment due to the Mason School District.

NOTE 9 – SHORT-TERM DEBT

Short-term debt provides financing for governmental activities. In 2012, the Town issued tax anticipation notes, in the amount of \$600,000. This debt was issued for interim financing of general fund operations. On December 28, 2012, the Town repaid the note plus \$7,287 in interest at a rate of 2.34%.

NOTE 10 – LONG-TERM LIABILITIES

Changes in the Town's long-term obligations consisted of the following for the year ended December 31, 2012:

	General Obligation Bonds/Notes Payable	Capital Leases Payable	Unamortized Bond Premium	Total
Balance, beginning	\$ 262,606	\$ 45,460	\$ 4,000	\$ 312,066
Reductions	(60,845)	(27,087)	(800)	(88,732)
Balance, ending	\$ 201,761	\$ 18,373	\$ 3,200	\$ 223,334

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Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2012	Current Portion
General obligation bonds/notes payable:						
Police station	\$ 292,000	2006	2016	4.00-5.00	\$ 115,000	\$ 30,000
Loader	\$ 161,000	2007	2014	4.00	46,000	23,000
Land purchase	\$ 80,000	2008	2017	4.50-5.50	40,761	8,276
					<u>201,761</u>	<u>61,276</u>
Bond premium					<u>3,200</u>	<u>800</u>
					<u>204,961</u>	<u>62,076</u>
Capital leases payable:						
Police SUV					9,026	9,026
Highway truck					9,347	9,347
					<u>18,373</u>	<u>18,373</u>
Total					<u>\$ 223,334</u>	<u>\$ 80,449</u>

The premium is being amortized on a straight-line basis over the life of the bonds.

The annual requirements to amortize all general obligation bonds/notes outstanding as of December 31, 2012, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2013	\$ 61,276	\$ 9,832	\$ 71,108
2014	61,731	6,957	68,688
2015	39,212	4,056	43,268
2016	34,718	2,050	36,768
2017	4,824	265	5,089
Totals	<u>\$ 201,761</u>	<u>\$ 23,160</u>	<u>\$ 224,921</u>

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

NOTE 11 – CAPITAL LEASES

The Town has entered into certain capital lease agreements under which the related equipment will become the property of the Town when all the terms of the lease agreements are met.

	Standard Interest Rate	Present Value of Remaining Payments as of December 31, 2012
Police SUV	5.50%	\$ 9,026
Highway truck	5.50%	9,347
Total capital lease obligations		<u>\$ 18,373</u>

The annual requirements to amortize capital leases payable as of December 31, 2012, including interest payments, are as follows:

Fiscal Year Ending December 31,	
2013	\$ 19,383
Less: interest	(1,010)
Present value of remaining payments	<u>\$ 18,373</u>

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NOTE 12 – ENCUMBRANCES

Encumbrances outstanding of \$9,500 at December 31, 2012, relates to the capital outlay function of the town and is a non-lapsing appropriation.

NOTE 13 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2012 include the following:

Nonspendable:		
Major fund:		
General:		
Prepaid items	\$ 237	
Nonmajor fund:		
Permanent:		
Principal balance	<u>100,869</u>	
Total nonspendable fund balance		\$ 101,106
Restricted:		
Major fund:		
General:		
Library funds	\$ 28,707	
Nonmajor fund:		
Permanent fund:		
Income balance	<u>74,089</u>	
Total restricted fund balance		102,796
Committed:		
Major fund:		
General:		
Non-lapsing appropriation	\$ 9,500	
From unassigned fund balance	14,815	
Expendable trust funds	<u>126,604</u>	
	<u>150,919</u>	
Nonmajor fund:		
Special revenue:		
Conservation commission	52,778	
Forestry funds	<u>53,147</u>	
	<u>105,925</u>	
Total committed fund balance		256,844
Unassigned:		
Major fund:		
General		<u>327,251</u>
Total governmental fund balances		<u><u>\$ 787,997</u></u>

NOTE 14 – PRIOR PERIOD ADJUSTMENT

Fund equity at January 1, 2012 was restated to give retroactive effect to the following prior period adjustment:

	Government Wide	General Fund
To adjust prior year school tax liability to actual	\$ 23,494	\$ 23,494
Net position/fund balance, as previously reported	<u>489,287</u>	<u>517,383</u>
Net position/fund balance, as restated	<u><u>\$ 512,781</u></u>	<u><u>\$ 540,877</u></u>

As a result of the above prior period adjustment, restated beginning unassigned fund balance is \$360,249 and restated beginning net position is \$512,781.

TOWN OF MASON, NEW HAMPSHIRE
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NOTE 15 – EMPLOYEE RETIREMENT PLAN

The Town participates in the New Hampshire Retirement System (the System) which is the administrator of a cost-sharing multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provision for benefits and contributions are established and can be amended by the New Hampshire Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. For fiscal year 2012, 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 2012 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 Mason for the fiscal years 2010, 2011, and 2012 were \$25,505, \$33,001, and \$35,563, respectively, which were paid in full in each year.

NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to pension benefits described in preceding note, the Town provides postemployment benefit options for health care 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 December 31, 2012 or contracted with an actuarial firm to assist in evaluating the impact of this new standard on the Town. The amounts that should be recorded as the annual required contribution/OPEB cost and the net OPEB obligation are unknown.

NOTE 17 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2012, the Town was a member of the Local Government Center Property-Liability Trust, LLC, and the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation Programs. These entities are public entity risk pools, currently operating as common risk management and insurance programs for member Towns and cities.

The Local Government Center Property-Liability Trust, LLC, is a Trust organized to provide certain property and liability insurance coverages to member Towns, cities and other qualified political subdivisions of New Hampshire. As a member of the Local Government Center Property-Liability Trust, LLC, the Town shares in contributing to the cost of, and receiving benefits from, a self-insured pooled risk management program. The membership and coverage run from July 1 to June 30. The program maintains a self-insured retention above which it purchases reinsurance and excess insurance. This policy covers property, auto physical damage, crime, general liability, and public officials' liability subject to a \$1,000 deductible.

Contributions paid in fiscal year ending December 31, 2012, to be recorded as an insurance expenditure totaled \$24,796. There were no unpaid contributions for the year ended December 31, 2012.

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The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation Programs is a pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from January 1, 2012 to December 31, 2012 by Primex³, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the Town of Mason billed and paid for the year ended December 31, 2012 was \$16,411 for workers' compensation.

NOTE 18 – 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 19 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

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. 61, *The Financial Reporting Entity: Omnibus and Amendments of GASB Statements No. 14 and No. 34*, issued November 2010, will be effective for the Town beginning with its fiscal year ending December 31, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012, will be effective for the Town beginning with its fiscal year ending December 2013. This Statement is intended to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

GASB Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*, issued March 2012, will be effective for the Town beginning with its fiscal year ending December 31, 2013.

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 December 31, 2014. 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. 68, *Accounting and Financial Reporting for Pensions*, issued in June 2012, will be effective for the Town beginning with its fiscal year ending December 31, 2014. 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.

NOTE 20 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through November 25, 2013, the date the December 31, 2012 financial statements were issued, and no events occurred that require recognition or disclosure.

COMBINING AND INDIVIDUAL FUND SCHEDULES

*SCHEDULE 1
TOWN OF MASON, NEW HAMPSHIRE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2012*

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 1,199,773	\$ 1,192,202	\$ (7,571)
Land use change	-	7,900	7,900
Timber	19,000	17,729	(1,271)
Interest and penalties on taxes	30,600	39,116	8,516
Total from taxes	<u>1,249,373</u>	<u>1,256,947</u>	<u>7,574</u>
Licenses, permits, and fees:			
Motor vehicle permit fees	210,000	229,647	19,647
Building permits	1,900	2,184	284
Other	5,000	4,641	(359)
Total from licenses, permits, and fees	<u>216,900</u>	<u>236,472</u>	<u>19,572</u>
Intergovernmental:			
State:			
Meals and rooms distribution	61,884	61,874	(10)
Highway block grant	66,800	66,800	-
State and federal forest land reimbursement	572	572	-
Other	5,700	5,736	36
Total from intergovernmental	<u>134,956</u>	<u>134,982</u>	<u>26</u>
Charges for services:			
Income from departments	3,600	17,365	13,765
Miscellaneous:			
Interest on investments	250	289	39
Other	45,000	18,354	(26,646)
Total from miscellaneous	<u>45,250</u>	<u>18,643</u>	<u>(26,607)</u>
Other financing sources:			
Transfers in	27,714	28,118	404
Total revenues and other financing sources	1,677,793	<u>\$ 1,692,527</u>	<u>\$ 14,734</u>
Unassigned fund balance used to reduce tax rate	118,351		
Total revenues, other financing sources, and use of fund balance	<u>\$ 1,796,144</u>		

SCHEDULE 2
TOWN OF MASON, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2012

	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:				
General government:				
Executive	\$ 2,925	\$ 2,925	\$ -	\$ -
Election and registration	53,718	56,837	-	(3,119)
Financial administration	77,479	74,084	-	3,395
Revaluation of property	3,500	2,495	-	1,005
Legal	7,500	5,647	-	1,853
Personnel administration	217,878	200,777	-	17,101
Planning and zoning	7,554	5,005	-	2,549
General government buildings	48,842	47,313	-	1,529
Cemeteries	12,738	10,557	-	2,181
Insurance, not otherwise allocated	26,500	24,796	-	1,704
Advertising and regional associations	1,128	1,128	-	-
Other	1,060	1,059	-	1
Total general government	460,822	432,623	-	28,199
Public safety:				
Police	286,308	303,754	-	(17,446)
Ambulance	11,039	11,039	-	-
Fire	60,642	59,634	-	1,008
Building inspection	19,606	14,041	-	5,565
Emergency management	4,800	360	-	4,440
Other	19,600	18,867	-	733
Total public safety	401,995	407,695	-	(5,700)
Highways and streets:				
Highways and streets	553,981	550,143	-	3,838
Street lighting	1,584	1,684	-	(100)
Total highways and streets	555,565	551,827	-	3,738
Sanitation:				
Solid waste disposal	46,086	45,457	-	629
Health:				
Administration	25	-	-	25
Pest control	1,000	-	-	1,000
Health agencies	1,500	1,500	-	-
Total health	2,525	1,500	-	1,025
Welfare:				
Administration	1,000	2,400	-	(1,400)
Culture and recreation:				
Parks and recreation	10,870	7,933	-	2,937
Patriotic purposes	600	262	-	338
Total culture and recreation	11,470	8,195	-	3,275
Conservation	2,001	8,802	-	(6,801)
Debt service:				
Principal of long-term debt	78,458	78,458	-	-
Interest on long-term debt	14,621	14,603	-	18
Interest on tax anticipation notes	10,000	7,286	-	2,714
Total debt service	103,079	100,347	-	2,732

(Continued)

SCHEDULE 2 (Continued)
TOWN OF MASON, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2012

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Encumbered to Subsequent Year</u>	<u>Variance Positive (Negative)</u>
Capital outlay	<u>134,500</u>	<u>124,647</u>	<u>9,500</u>	<u>353</u>
Other financing uses:				
Transfers out	<u>77,101</u>	<u>75,831</u>	<u>-</u>	<u>1,270</u>
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 1,796,144</u>	<u>\$ 1,759,324</u>	<u>\$ 9,500</u>	<u>\$ 27,320</u>

*SCHEDULE 3
TOWN OF MASON, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2012*

Unassigned fund balance, beginning, as restated (see Note 14)		\$ 360,249
Changes:		
Unassigned fund balance used to reduce 2012 tax rate		(118,351)
2012 Budget summary:		
Revenue surplus (Schedule 1)	\$ 14,734	
Unexpended balance of appropriations (Schedule 2)	<u>27,320</u>	
2012 Budget surplus		42,054
Increase in nonspendable fund balance		(237)
Decrease in committed fund balance (non-encumbrances)		<u>43,536</u>
Unassigned fund balance, ending		<u><u>\$ 327,251</u></u>

SCHEDULE 4
TOWN OF MASON, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2012

	Special Revenue Funds			Total
	Conservation Commission	Forestry Fund	Permanent Fund	
ASSETS				
Investments	\$ 46,278	\$ 53,147	\$ 174,958	\$ 274,383
Interfund receivable	6,500	-	-	6,500
Total assets	<u>\$ 52,778</u>	<u>\$ 53,147</u>	<u>\$ 174,958</u>	<u>\$ 280,883</u>
FUND BALANCES				
Nonspendable	\$ -	\$ -	\$ 100,869	\$ 100,869
Restricted	-	-	74,089	74,089
Committed	52,778	53,147	-	105,925
Total fund balances	<u>\$ 52,778</u>	<u>\$ 53,147</u>	<u>\$ 174,958</u>	<u>\$ 280,883</u>

*SCHEDULE 5
TOWN OF MASON, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2012*

	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>Conservation Commission</u>	<u>Forestry Fund</u>	<u>Permanent Fund</u>	
Revenues:				
Taxes	\$ 6,500	\$ -	\$ -	\$ 6,500
Intergovernmental	162	-	-	162
Miscellaneous	6,886	68	698	7,652
Total revenues	<u>13,548</u>	<u>68</u>	<u>698</u>	<u>14,314</u>
Expenditures:				
Current:				
Conservation	2,082	-	-	2,082
Excess of revenues over expenditures	11,466	68	698	12,232
Other financing uses:				
Transfers out	<u>(12,904)</u>	<u>(9,500)</u>	<u>-</u>	<u>(22,404)</u>
Net change in fund balances	(1,438)	(9,432)	698	(10,172)
Fund balances, beginning	54,216	62,579	174,260	291,055
Fund balances, ending	<u>\$ 52,778</u>	<u>\$ 53,147</u>	<u>\$ 174,958</u>	<u>\$ 280,883</u>



PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

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

In planning and performing our audit of the financial statements of the governmental activities, major general fund, and the aggregate remaining fund information of the Town of Mason as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Mason's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the Town of Mason's internal control to be a material weakness:

Segregation of Duties

The Town Treasurer has delegated all accounting functions to the Selectmen's Administrative Assistant as provided by RSA 41:29,V1. The general ledger is maintained and reconciled by this one individual, and although reconciliations are reviewed by the Treasurer, the procedures do not provide for a segregation of duties as required by generally accepted accounting principles. Further, the aforementioned state statute does not appear to eliminate the responsibility of the treasurer to comply with all statutory duties required by law. We believe this should include the requirement to "keep in suitable books provided for the purpose a fair and correct account of all sums received into and paid from the town treasury." We believe this should be over and above the Town's recordkeeping system.

In our opinion, the provisions of RSA 41:29,V1 are not intended to remove the internal accounting controls provided by the segregation of duties. We suggest that the Board of Selectmen obtain an opinion from the Commissioner of Revenue Administration and or legal counsel to verify that the adoption of the aforementioned state statute meets the criteria outlined therein.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Town of Mason's internal control to be significant deficiencies:

Town Policies

The Town has not established any formally adopted policies for code of ethics, anti-fraud, credit cards, accounting procedures, and disaster recover, which are essential tools necessary to manage the Town's operations efficiently and effectively. It was also

Town of Mason

Independent Auditor's Communication of Significant Deficiencies and Material Weaknesses

noted that the Town has not adopted an investment policy, which is required by State Statutes to be adopted and reviewed each year. We recommend that the Board of Selectmen develop and formally adopt the above noted policies in order to clearly communicate the Town's position on these issues and to be in compliance with State Statues.

GASB No. 54 Fund Balance Policy

In March 2009 the Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement became effective December 31, 2011 and requires the Town to adopt a fund balance policy. As of December 31, 2012, the Town had not yet done so. We recommend that the Board of Selectmen develop and formally approve such a policy.

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

November 25, 2013

*Plodzik & Sanderson
Professional Association*