

**TOWN OF HAMPTON FALLS,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

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

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
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PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Selectmen
Town of Hampton Falls
Hampton Falls, New Hampshire

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 Hampton Falls 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 14 to the financial statements, management has not recorded the long-term costs of retirement health care costs and obligations for other postemployment benefits in the governmental activities. Accounting principles generally accepted in the United States of America require that those costs be recorded, which would increase the liabilities, 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 Hampton Falls
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 Hampton Falls, 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 fund and the aggregate remaining fund information of the Town of Hampton Falls as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, 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.

Other Matters

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hampton Falls 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.

*Plodzik & Sanderson
Professional Association*

August 26, 2013

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 2,663,751
Investments	1,112,431
Intergovernmental	5,500
Other receivables, net of allowances for uncollectible	777,968
Total assets	<u>4,559,650</u>
LIABILITIES	
Accounts payable	41,736
Accrued salaries and benefits	3,180
Intergovernmental payable	2,742,685
Accrued interest payable	29,649
Deferred revenue	22,042
Noncurrent obligations:	
Due within one year:	
Bond	185,000
Due in more than one year:	
Bond	1,560,000
Compensated absences	24,958
Total liabilities	<u>4,609,250</u>
NET POSITION	
Restricted for trust purposes	129,195
Unrestricted (deficit)	<u>(178,795)</u>
Total net position (deficit)	<u>\$ (49,600)</u>

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

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

		Program Revenues		Net (Expense)
		Charges	Operating	Revenue and
		for	Grants and	Change in
	Expenses	Services	Contributions	Net Position
Governmental activities:				
General government	\$ 737,016	\$ 5,294	\$ -	\$ (731,722)
Public safety	747,129	108,211	-	(638,918)
Highways and streets	193,238	-	67,825	(125,413)
Sanitation	191,278	-	-	(191,278)
Health	34,039	-	-	(34,039)
Welfare	3,512	-	-	(3,512)
Culture and recreation	200,921	6,143	-	(194,778)
Conservation	7,615	-	-	(7,615)
Interest on long-term debt	85,003	-	-	(85,003)
Capital outlay	34,480	-	-	(34,480)
Total governmental activities	<u>\$ 2,234,231</u>	<u>\$ 119,648</u>	<u>\$ 67,825</u>	<u>(2,046,758)</u>
General revenues:				
Taxes:				
Property				1,770,419
Other				80,684
Motor vehicle permit fees				481,567
Licenses and other fees				36,922
Grants and contributions not restricted to specific programs				112,737
Miscellaneous				117,420
Total general revenues				<u>2,599,749</u>
Change in net position				552,991
Net position, beginning				(602,591)
Net position, ending				<u>\$ (49,600)</u>

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

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

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,490,471	\$ -	\$ 2,490,471
Investments	3,873	723,332	727,205
Receivables, net of allowance for uncollectible:			
Taxes	759,563	-	759,563
Accounts	939	17,466	18,405
Intergovernmental	5,500	-	5,500
Interfund receivable	4,418	2,625	7,043
Restricted - Cash and cash equivalents	173,280	-	173,280
Restricted - Investments	385,226	-	385,226
Total assets	<u>\$ 3,823,270</u>	<u>\$ 743,423</u>	<u>\$ 4,566,693</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 41,736	\$ -	\$ 41,736
Accrued salaries and benefits	3,180	-	3,180
Intergovernmental payable	2,742,685	-	2,742,685
Interfund payable	1,735	5,308	7,043
Deferred revenue	22,042	-	22,042
Total liabilities	<u>2,811,378</u>	<u>5,308</u>	<u>2,816,686</u>
Fund balances:			
Nonspendable	-	99,093	99,093
Restricted	173,779	30,102	203,881
Committed	386,526	608,920	995,446
Assigned	22,110	-	22,110
Unassigned	429,477	-	429,477
Total fund balances	<u>1,011,892</u>	<u>738,115</u>	<u>1,750,007</u>
Total liabilities and fund balances	<u>\$ 3,823,270</u>	<u>\$ 743,423</u>	<u>\$ 4,566,693</u>

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

EXHIBIT C-2
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Reconciliation of Total Governmental Fund Balances to the Statement of Net Position
December 31, 2012

Total fund balances of governmental funds (Exhibit C-1)		\$ 1,750,007
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	\$ (7,043)	
Payables	<u>7,043</u>	
		-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(29,649)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Bond	\$ 1,745,000	
Compensated absences	<u>24,958</u>	
		<u>(1,769,958)</u>
Total net position of governmental activities (Exhibit A)		<u>\$ (49,600)</u>

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

EXHIBIT C-3
TOWN OF HAMPTON FALLS, 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	\$ 1,851,103	\$ -	\$ 1,851,103
Licenses and permits	518,490	-	518,490
Intergovernmental	180,562	-	180,562
Charges for services	4,610	114,353	118,963
Miscellaneous	93,771	24,333	118,104
Total revenues	<u>2,648,536</u>	<u>138,686</u>	<u>2,787,222</u>
Expenditures:			
Current:			
General government	746,824	3,749	750,573
Public safety	696,076	44,650	740,726
Highways and streets	193,238	-	193,238
Sanitation	191,278	-	191,278
Health	34,039	-	34,039
Welfare	3,512	-	3,512
Culture and recreation	192,222	7,715	199,937
Conservation	2,797	4,818	7,615
Debt service:			
Principal	185,000	-	185,000
Interest	88,418	-	88,418
Capital outlay	34,480	-	34,480
Total expenditures	<u>2,367,884</u>	<u>60,932</u>	<u>2,428,816</u>
Excess (deficiency) of revenues over (under) expenditures	<u>280,652</u>	<u>77,754</u>	<u>358,406</u>
Other financing sources (uses):			
Transfers in	-	1,719	1,719
Transfers out	(1,719)	-	(1,719)
Total other financing sources and uses	<u>(1,719)</u>	<u>1,719</u>	<u>-</u>
Net change in fund balances	278,933	79,473	358,406
Fund balances, beginning	732,959	658,642	1,391,601
Fund balances, ending	<u>\$ 1,011,892</u>	<u>\$ 738,115</u>	<u>\$ 1,750,007</u>

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

EXHIBIT C-4
TOWN OF HAMPTON FALLS, 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)		\$ 358,406
Amounts reported for governmental activities in the Statement of Activities are different because:		
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	\$ (1,719)	
Transfers out	<u>1,719</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 bond principal		185,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense	\$ 3,415	
Decrease in compensated absences payable	<u>6,170</u>	
		<u>9,585</u>
Changes in net position of governmental activities (Exhibit B)		<u><u>\$ 552,991</u></u>

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

EXHIBIT D
TOWN OF HAMPTON FALLS, 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	\$ 1,804,629	\$ 1,851,103	\$ 46,474
Licenses and permits	466,000	518,490	52,490
Intergovernmental	176,271	180,562	4,291
Charges for services	3,500	4,610	1,110
Miscellaneous	27,300	18,692	(8,608)
Total revenues	<u>2,477,700</u>	<u>2,573,457</u>	<u>95,757</u>
Expenditures:			
Current:			
General government	733,300	711,475	21,825
Public safety	703,500	696,076	7,424
Highways and streets	234,100	193,238	40,862
Sanitation	200,000	191,278	8,722
Health	35,600	34,039	1,561
Welfare	11,000	3,512	7,488
Culture and recreation	20,500	19,445	1,055
Conservation	4,500	2,797	1,703
Debt service:			
Principal	185,000	185,000	-
Interest	90,600	88,418	2,182
Capital outlay	37,500	35,457	2,043
Total expenditures	<u>2,255,600</u>	<u>2,160,735</u>	<u>94,865</u>
Excess of revenues over expenditures	222,100	412,722	190,622
Other financing uses:			
Transfers out	<u>(322,100)</u>	<u>(303,819)</u>	<u>18,281</u>
Net change in fund balances	<u>\$ (100,000)</u>	108,903	<u>\$ 208,903</u>
Unassigned fund balance, beginning		320,574	
Unassigned fund balance, ending		<u>\$ 429,477</u>	

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

EXHIBIT E-1
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Fiduciary Funds
Statement of Fiduciary Net Position
December 31, 2012

	Private Purpose Trust	Agency
ASSETS		
Investments	\$ 103,793	\$ 345,402
LIABILITIES		
Due to other governmental units	-	26,445
Due to others	-	318,957
Total liabilities	-	345,402
NET POSITION		
Held in trust for special purposes	\$ 103,793	\$ -

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

EXHIBIT E-2
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended December 31, 2012

	Private Purpose Trust
ADDITIONS	
Investment earnings:	
Interest and dividends	\$ 5,016
New funds	21,853
Net change in fair market value of investments	3,364
Total additions	<u>30,233</u>
DEDUCTIONS	
Trust income distributions	<u>(12,000)</u>
Change in net position	18,233
Net position, beginning	85,560
Net position, ending	<u><u>\$ 103,793</u></u>

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

TOWN OF HAMPTON FALLS, 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 HAMPTON FALLS, 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 Hampton Falls, 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 Hampton Falls 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 funds combined; and
- (c) In addition, any other governmental fund that the Town believes is particularly important to the financial statement users may be reported as a major fund.

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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Governmental Activities – Governmental funds are identified as general, special revenue and permanent funds, based upon the following guidelines:

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

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

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

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

Private Purpose Trust Funds – are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

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

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

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

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

Fiduciary Funds – The Town reports the following fiduciary funds:

Private Purpose Trust Funds:

Scholarship Fund – accounts for money left for the benefit of students.

Agency Funds:

School District Expendable Trust Fund – accounts for legally established funds to be used by the Winnacunnet Cooperative and Hampton Falls School Districts 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. Under this concept, revenues and expenses are matched using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are susceptible to accrual, that is, when they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues (except property taxes mentioned below) to be available if they are collected within 60 days of the end of the

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

current period. Property taxes, grants and contracts, and interest associated with the current period are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Town. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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.

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

1-E Restricted Assets

Certain cash and investment accounts are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is legally restricted for specific purposes; laws and/or enabling legislation.

1-F Investments

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

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

- Obligations of the United States government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- 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.

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

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

1-G Receivables

Receivables in the government-wide and governmental fund financial statements represent amounts due to the Town at December 31, recorded as revenue, which will be collected in the future and consist primarily of taxes, accounts, and intergovernmental receivables.

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

Accounts receivable include various service charges which are recorded as revenue for the period when service was provided. These receivables are reported net of any allowances for uncollectible accounts.

1-H Interfund Balances

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

1-I Allowances for Uncollectible Accounts

An allowance for uncollectible accounts has been recorded for the following purposes:

Taxes – an allowance has been established by management where collectability is in doubt.

Ambulance – an allowance has been established for all receivables that are older than 120 days, and where collectability is in doubt.

1-J 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 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-K 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.

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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 Statements of Net Position, deferred revenue is classified as unearned revenue.

1-M Compensated Absences

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

All compensated absence liabilities include salary-related payments, where applicable. The total compensated absence liability is reported on the government-wide fund financial statements. Governmental funds report the compensated absence liability at the fund reporting level only "when due."

1-N Long-Term Obligations

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

1-O 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-P Equity/Fund Balance Classifications

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

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

Governmental Fund Balances Classification – The Town previously implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the fiscal year ending December 31, 2011. GASB Statement No. 54 established fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) are legally or contractually required to be maintained intact. The Town has classified 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, as well as certain donations received from third parties for specific purposes because their use is restricted by Federal/State statutes for expenditures.

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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 and all special revenue funds are included in this classification.

Assigned – This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Selectmen through the budgetary process. The Town has assigned funds consisting of reserve for encumbrances in the general fund at year-end.

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

1-Q 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" (i.e. the current portion of interfund loans). All other outstanding balances between funds are reported 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-R Use of Estimates

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

1-S 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*. GASBS 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.

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

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

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. In the fiscal year 2012, \$100,000 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

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

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

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

Revenues:	
Per Exhibit D (budgetary basis)	\$ 2,573,457
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
Income earned on eliminated library fund	55,698
Interest income earned on eliminated expendable trust funds	19,378
Interest income earned on eliminated heritage fund	3
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,648,536</u>
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 2,464,554
Adjustment:	
Basis differences:	
Encumbrances, beginning	21,133
Encumbrances, ending	(22,110)
GASB Statement No. 54:	
To record expendable trust expenditures during the year	35,349
To record library expenditures during the year	172,694
To record heritage fund expenditures during the year	83
To eliminate transfers between general and expendable trust funds	(139,500)
To recognize transfer between general and library fund	(161,300)
To recognize transfer between general and heritage fund	(1,300)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,369,603</u>

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DETAILED NOTES ON ALL FUNDS

NOTE 3 – INVESTMENTS

The Town maintains a portfolio of short-term maturity investments, including money market investments and repurchase agreements, which are reported at amortized cost. 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:

	Governmental Activities	Fiduciary Funds	Total
Certificate of deposit	\$ 327,858	\$ -	\$ 327,858
New Hampshire Public Deposit Investment Pool	272,204	318,957	591,161
Fixed income money market mutual funds	512,369	130,238	642,607
	<u>\$ 1,112,431</u>	<u>\$ 449,195</u>	<u>\$ 1,561,626</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.

Investment reconciliation:

Investment per Statement of Net Assets (Exhibit A)	\$ 1,112,431
Investment per Statement of Fiduciary Net Assets (Exhibit E-1)	449,195
Total investments	<u>\$ 1,561,626</u>

NOTE 4 – RESTRICTED ASSETS

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

Cash and cash equivalents:	
General fund:	
Library	\$ 173,280
Investments:	
General fund:	
Heritage	2,053
Expendable trust:	
Police cruiser	19,107
Library expansion	739
Conservation land	68,763
Fire truck	51,580
Landfill closure	33,590
Library improvements	20,160
Old Stage Road bridge	18,783
Cemetery maintenance	41,668
Highway maintenance	118,082
Town hall improvements	129
Tercentenary celebration	2,004
Fire department mezzanine	8,532
Old library building	36
Total expendable trusts	383,173
Total investments	385,226
Total restricted assets	<u>\$ 558,506</u>

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NOTE 5 – TAXES RECEIVABLE

The property tax year is from April 1 to March 31 and all property taxes are assessed on the inventory taken in April of that year. The net assessed valuation as of April 1, 2012, upon which the 2012 property tax levy was based is:

For the New Hampshire education tax	\$ 422,431,300
For all other taxes	\$ 432,786,600

The Town subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Taxes were levied on May 16, 2012 and November 3, 2012, with payments due on July 5, 2012 and December 3, 2012. Interest accrues at a rate of 12% on bills outstanding after the due dates and 18% on tax liens outstanding. The first billing is considered an estimate only and is one half of the previous year's tax billing. The remaining balance of taxes due is billed in the fall after the New Hampshire Department of Revenue Administration has calculated and approved the Town's tax rate for the fiscal year.

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

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

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$4.28	\$ 1,855,065
School portion:		
State of New Hampshire	\$2.40	1,011,808
Local	\$12.29	5,317,430
County portion	\$1.01	437,920
Total		<u>\$ 8,622,223</u>

During the current fiscal year, the tax collector executed a lien on April 17, 2012 for all uncollected 2011 property taxes.

Taxes receivable at December 31, 2012, are as follows:

Property:	
Levy of 2012	\$ 545,235
Unredeemed (under tax lien):	
Levy of 2011	108,537
Levy of 2010	88,545
Levies of 2009 and prior	35,080
Less: allowance for estimated uncollectible taxes	(17,834)
Net taxes receivable	<u>\$ 759,563</u>

NOTE 6 – OTHER RECEIVABLES

Receivables at December 31, 2012, consisted of accounts (billings for police details, ambulance and other user charges) and intergovernmental amounts arising from grants. 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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Receivables as of December 31, 2012 for the Town's individual nonmajor funds in the aggregate including applicable allowances for uncollectible accounts are as follows:

	Nonmajor Funds
Receivables:	
Accounts	\$ 31,811
Less: allowance for uncollectible	(14,345)
Net total receivables	<u>\$ 17,466</u>

NOTE 7 – INTERFUND BALANCES AND TRANSFERS

Interfund receivable and payable balances consisting of overdrafts in pooled cash and budgetary transfers at December 31, 2012, are as follows:

Receivable Fund	Payable Fund	Amount
Nonmajor	Nonmajor	\$ 890
	General	1,735
General	Nonmajor	4,418
		<u>\$ 7,043</u>

Interfund transfers during the year ended December 31, 2012 are as follows:

	Transfers In: Nonmajor Funds
Transfers out:	
General fund	\$ 1,719
Total	<u>\$ 1,719</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (2) use unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 8 – INTERGOVERNMENTAL PAYABLE

The amount due to other governments at December 31, 2012, consists of the balance of 2012-2013 School District assessments due to Hampton Falls and Winnacunnet Cooperative School Districts totaling \$2,742,685.

NOTE 9 – DEFERRED/UNEARNED REVENUE

Deferred/unearned revenue of \$22,042 at December 31, 2012 consists of the following:

General fund:	
Property tax revenue collected in advance of the 2013 property tax warrant being issued	\$19,752
Cemetery revenue collected in advance	2,290
Total deferred/unearned revenue	<u>\$22,042</u>

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 Bond Payable	Compensated Absences Payable	Total
Balance, beginning	\$ 1,930,000	\$ 31,128	\$ 1,961,128
Reductions	(185,000)	(6,170)	(191,170)
Balance, ending	<u>\$ 1,745,000</u>	<u>\$ 24,958</u>	<u>\$ 1,769,958</u>

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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 bond payable:						
2010 bond	\$2,115,000	2010	2025	3.96	\$ 1,745,000	\$ 185,000
Compensated absences payable					24,958	-
Total					<u>\$ 1,769,958</u>	<u>\$ 185,000</u>

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

Fiscal Year Ending December 31,	Principal	Interest	Total
2013	\$ 185,000	\$ 79,168	\$ 264,168
2014	180,000	69,918	249,918
2015	180,000	60,918	240,918
2016	120,000	51,918	171,918
2017	120,000	45,918	165,918
2018-2022	600,000	155,640	755,640
2023-2025	360,000	31,950	391,950
2027-2031	-	-	-
Totals	<u>\$ 1,745,000</u>	<u>\$ 495,430</u>	<u>\$ 2,240,430</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 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the government-wide Statement of Net Position at December 31, 2012 include the following:

Restricted for special purposes:	
Perpetual care	\$ 129,195
Unrestricted (deficit)	(178,795)
Total net position (deficit)	<u>\$ (49,600)</u>

NOTE 12 – GOVERNMENTAL FUND BALANCES

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

Nonspendable:	
Nonmajor fund:	
Special revenue:	
Permanent (principal balance)	\$ 99,093
Restricted:	
Major fund:	
General:	
Library	\$ 173,779
Nonmajor fund:	
Special revenue:	
Permanent (income portion)	<u>30,102</u>
Total restricted fund balance	203,881

(Continued)

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
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Governmental fund balances continued:

Committed:		
Major fund:		
General:		
Expendable trusts	\$ 383,173	
Heritage	3,353	
	<u>386,526</u>	
Nonmajor funds:		
Special revenue:		
Conservation commission	332,449	
Recreation	32,615	
Fire department vehicle	189,773	
Fire detail	1,750	
Police detail	41,050	
All other	11,283	
Total nonmajor funds	<u>608,920</u>	
Total committed fund balance		995,446
Assigned:		
Major fund:		
General:		
Encumbrances		22,110
Unassigned:		
Major fund:		
General	429,477	
Total governmental fund balances	<u>\$ 1,750,007</u>	

NOTE 13 – EMPLOYEE RETIREMENT PLAN

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

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 Hampton Falls for the fiscal years 2010, 2011, and 2012 were \$67,055, \$81,190, and \$86,551, respectively, which were paid in full in each year.

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to pension benefits described in preceding note, the Town provides postemployment benefit options for health care, life insurance, dental insurance, and disability income to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with the Town's agreements, collective bargaining agreements, and the Consolidated

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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 is unknown.

NOTE 15 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 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 and Property/Liability 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 \$21,378 for worker's compensation. There were no unpaid contributions for the year ended December 31, 2012. The trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. At this time, the Trust foresees no likelihood of any additional assessments for past years.

The New Hampshire Public Risk Management Exchange (Primex³) Property/Liability Programs is a pooled risk management program 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 Hampton Falls billed and paid for the year ended December 31, 2012 was \$13,829 for property/liability. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex³ foresees no likelihood of any additional assessment for this or any prior year.

NOTE 16 – CONTINGENT LIABILITIES

There are various legal claims and suits pending against the Town which arose in the normal course of the Town's activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect on the financial position of the Town.

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

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DECEMBER 31, 2012

NOTE 17 – 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/City 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/City 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 18 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the Balance Sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the Balance Sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the Balance Sheet date, but arose after the date. Management has evaluated subsequent events through August 26, 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 HAMPTON FALLS, 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	\$ 1,733,529	\$ 1,770,419	\$ 36,890
Land use change	100	-	(100)
Timber	1,000	552	(448)
Interest and penalties on taxes	70,000	80,132	10,132
Total from taxes	<u>1,804,629</u>	<u>1,851,103</u>	<u>46,474</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	3,000	4,155	1,155
Motor vehicle permit fees	440,000	481,567	41,567
Building permits	14,000	20,706	6,706
Other	9,000	12,062	3,062
Total from licenses, permits, and fees	<u>466,000</u>	<u>518,490</u>	<u>52,490</u>
Intergovernmental:			
State:			
Meals and rooms distribution	99,718	99,703	(15)
Highway block grant	57,753	57,753	-
Other	8,800	13,034	4,234
Federal:			
FEMA	10,000	10,072	72
Total from intergovernmental	<u>176,271</u>	<u>180,562</u>	<u>4,291</u>
Charges for services:			
Income from departments	<u>3,500</u>	<u>4,610</u>	<u>1,110</u>
Miscellaneous:			
Interest on investments	6,500	9,308	2,808
Rent of property	-	684	684
Other	20,800	8,700	(12,100)
Total from miscellaneous	<u>27,300</u>	<u>18,692</u>	<u>(8,608)</u>
Total revenues	2,477,700	<u>\$ 2,573,457</u>	<u>\$ 95,757</u>
Unassigned fund balance used to reduce tax rate	100,000		
Total revenues and use of fund balance	<u>\$ 2,577,700</u>		

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

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 119,600	\$ 133,401	\$ -	\$ (13,801)
Election and registration	-	72,500	61,812	-	10,688
Financial administration	-	101,600	104,783	-	(3,183)
Legal	-	12,500	8,750	-	3,750
Personnel administration	-	314,500	298,884	-	15,616
Planning and zoning	-	37,600	34,406	-	3,194
General government buildings	-	49,400	51,795	-	(2,395)
Cemeteries	-	8,200	3,815	-	4,385
Insurance, not otherwise allocated	-	14,900	13,829	-	1,071
Other	-	2,500	-	-	2,500
Total general government	-	733,300	711,475	-	21,825
Public safety:					
Police	-	403,300	390,836	-	12,464
Ambulance	-	52,500	54,304	-	(1,804)
Fire	-	179,000	193,273	-	(14,273)
Building inspection	-	53,500	47,418	-	6,082
Emergency management	-	15,200	10,245	-	4,955
Total public safety	-	703,500	696,076	-	7,424
Highways and streets:					
Highways and streets	-	230,600	189,846	-	40,754
Street lighting	-	3,500	3,392	-	108
Total highways and streets	-	234,100	193,238	-	40,862
Sanitation:					
Solid waste collection	-	132,000	132,942	-	(942)
Solid waste disposal	-	68,000	58,336	-	9,664
Total sanitation	-	200,000	191,278	-	8,722
Health:					
Administration	-	10,400	9,436	-	964
Pest control	-	2,600	2,323	-	277
Health agencies	-	22,600	22,280	-	320
Total health	-	35,600	34,039	-	1,561
Welfare:					
Direct assistance	-	11,000	3,512	-	7,488
Culture and recreation:					
Parks and recreation	-	20,000	18,933	-	1,067
Patriotic purposes	-	500	512	-	(12)
Total culture and recreation	-	20,500	19,445	-	1,055
Conservation	-	4,500	2,797	-	1,703
Debt service:					
Principal of long-term debt	-	185,000	185,000	-	-
Interest on long-term debt	-	89,600	88,418	-	1,182
Interest on tax anticipation notes	-	1,000	-	-	1,000
Total debt service	-	275,600	273,418	-	2,182

(Continued)

SCHEDULE 2 (Continued)
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Major General Fund

Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2012

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Capital outlay:					
Police cruiser computers/software	43	-	-	-	43
Town office improvements	772	-	772	-	-
Town Hall slates	2,146	-	-	2,146	-
Town website	370	-	-	370	-
Cemetery fence	1,736	-	-	1,736	-
Road reclamation	357	-	-	357	-
Grave restoration	4,400	-	414	3,986	-
Police cruiser	1,986	-	672	1,314	-
New police cruiser	1,829	-	672	1,157	-
Ambulance	239	-	-	239	-
Pagers	4,355	-	4,355	-	-
Mosquito control	900	27,000	27,000	900	-
Termites and pests - old library	2,000	-	-	-	2,000
Upgrade office	-	1,500	450	1,050	-
Replace pagers	-	9,000	145	8,855	-
Total capital outlay	<u>21,133</u>	<u>37,500</u>	<u>34,480</u>	<u>22,110</u>	<u>2,043</u>
Other financing uses:					
Transfers out	<u>-</u>	<u>322,100</u>	<u>303,819</u>	<u>-</u>	<u>18,281</u>
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 21,133</u>	<u>\$ 2,577,700</u>	<u>\$ 2,463,577</u>	<u>\$ 22,110</u>	<u>\$ 113,146</u>

SCHEDULE 3
TOWN OF HAMPTON FALLS, 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		\$ 320,574	
Changes:			
Unassigned fund balance used to reduce 2012 tax rate		(100,000)	
2012 Budget summary:			
Revenue surplus (Schedule 1)	\$ 95,757		
Unexpended balance of appropriations (Schedule 2)	<u>113,146</u>		
2012 Budget surplus		<u>208,903</u>	
Unassigned fund balance, ending, budgetary basis		<u>\$ 429,477</u>	

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

	Special Revenue Funds						
	Conservation Commission	Fire Department Vehicle	Recreation	Fire Detail	Police Detail	All Other	Permanent Fund
ASSETS							Total
Investments	\$ 330,714	\$ 173,338	\$ 32,615	\$ 5,457	\$ 40,730	\$ 11,283	\$ 723,332
Accounts receivable, net of allowance for uncollectable	-	15,545	-	-	1,921	-	17,466
Interfund receivable	1,735	890	-	-	-	-	2,625
Total assets	\$ 332,449	\$ 189,773	\$ 32,615	\$ 5,457	\$ 42,651	\$ 11,283	\$ 743,423
LIABILITIES AND FUND BALANCES							
Liabilities:							
Interfund payable	\$ -	\$ -	\$ -	\$ 3,707	\$ 1,601	\$ -	\$ 5,308
Fund balances:							
Nonspendable	-	-	-	-	-	-	99,093
Restricted	-	-	-	-	-	-	30,102
Committed	332,449	189,773	32,615	1,750	41,050	11,283	608,920
Total fund balances	332,449	189,773	32,615	1,750	41,050	11,283	738,115
Total liabilities and fund balances	\$ 332,449	\$ 189,773	\$ 32,615	\$ 5,457	\$ 42,651	\$ 11,283	\$ 743,423

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

	Special Revenue Funds						
	Conservation Commission	Fire Department Vehicle	Recreation	Fire Detail	Police Detail	All Other	Permanent Fund
Revenues:							
Charges for services	\$ -	\$ 42,276	\$ 6,143	\$ 3,747	\$ 62,187	\$ -	\$ -
Miscellaneous	2,826	703	4,910	3	45	3,659	12,187
Total revenues	2,826	42,979	11,053	3,750	62,232	3,659	12,187
Expenditures:							
Current:							
General government	-	-	-	-	-	-	3,749
Public safety	-	200	-	3,707	40,743	-	-
Culture and recreation	-	-	6,548	-	-	1,167	-
Conservation	4,818	-	-	-	-	-	-
Total expenditures	4,818	200	6,548	3,707	40,743	1,167	3,749
Excess (deficiency) of revenues over (under) expenditures	(1,992)	42,779	4,505	43	21,489	2,492	8,438
Other financing sources:							
Transfers in	1,719	-	-	-	-	-	-
Net change in fund balances	(273)	42,779	4,505	43	21,489	2,492	8,438
Fund balances, beginning	332,722	146,994	28,110	1,707	19,561	8,791	120,757
Fund balances, ending	\$ 332,449	\$ 189,773	\$ 32,615	\$ 1,750	\$ 41,050	\$ 11,283	\$ 129,195
							\$ 738,115