

**TOWN OF HAMPTON FALLS,  
NEW HAMPSHIRE**

**ANNUAL FINANCIAL REPORT**

**AS OF AND FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2013**

**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
**ANNUAL FINANCIAL REPORT**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2013**

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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, major fund, and the aggregate remaining fund information of the Town of Hampton Falls as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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 17 to the financial statements, management has not recorded the long-term costs of retirement health care costs and obligations for other postemployment benefits in the governmental activities. Accounting principles generally accepted in the United States of America require that those costs be recorded, which would increase the liabilities, decrease the net position, and increase the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position, and expenses 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" paragraph, 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, 2013, 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, 2013, and the respective changes in financial position, and the 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 requires 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 Hampton Falls'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.

May 7, 2014

*Plodzik & Sanderson  
Professional Association*

## ***BASIC FINANCIAL STATEMENTS***

**EXHIBIT A**  
**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
*Statement of Net Position*  
*December 31, 2013*

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,823,533
Investments	1,096,255
Receivables, net of allowances for uncollectible	600,021
Total assets	<u>4,519,809</u>
<b>LIABILITIES</b>	
Accounts payable	55,937
Accrued interest payable	26,234
Intergovernmental payable	2,541,271
Long-term liabilities:	
Due within one year	180,000
Due in more than one year	1,401,810
Total liabilities	<u>4,205,252</u>
<b>NET POSITION</b>	
Net investment in capital assets	(1,560,000)
Restricted for perpetual care	137,268
Unrestricted	1,737,289
Total net position	<u><u>\$ 314,557</u></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, 2013*

		Program Revenues		Net (Expense)
		Charges	Operating	Revenue and
		for	Grants and	Change In
	Expenses	Services	Contributions	Net Position
Governmental activities:				
General government	\$ 662,606	\$ 2,728	\$ -	\$ (659,878)
Public safety	734,075	103,438	7,299	(623,338)
Highways and streets	213,947	-	95,162	(118,785)
Sanitation	210,629	3,767	-	(206,862)
Health	31,526	-	-	(31,526)
Welfare	2,141	-	-	(2,141)
Culture and recreation	224,711	10,074	-	(214,637)
Conservation	11,617	-	-	(11,617)
Interest on long-term debt	75,753	-	-	(75,753)
Capital outlay	312,327	-	-	(312,327)
Total governmental activities	<u>\$ 2,479,332</u>	<u>\$ 120,007</u>	<u>\$ 102,461</u>	<u>(2,256,864)</u>
General revenues:				
Taxes:				
Property				1,755,129
Other				64,912
Motor vehicle permit fees				546,145
Licenses and other fees				35,766
Grants and contributions not restricted to specific programs				110,248
Miscellaneous				<u>108,821</u>
Total general revenues				<u>2,621,021</u>
Change in net position				364,157
Net position, beginning (deficit)				<u>(49,600)</u>
Net position, ending				<u>\$ 314,557</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, 2013**

	General	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,639,772	\$ -	\$ 2,639,772
Investments	3,819	770,562	774,381
Taxes receivable	630,905	2,044	632,949
Accounts receivable	-	18,993	18,993
Interfund receivable	12,855	7,707	20,562
Restricted assets:			
Cash and cash equivalents	183,761	-	183,761
Investments	321,874	-	321,874
Total assets	<u>\$ 3,792,986</u>	<u>\$ 799,306</u>	<u>\$ 4,592,292</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 55,937	\$ -	55,937
Due to other governments	2,541,271	-	2,541,271
Interfund payable	2,422	18,140	20,562
Total liabilities	<u>2,599,630</u>	<u>18,140</u>	<u>2,617,770</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - Property taxes	<u>421,553</u>	<u>-</u>	<u>421,553</u>
<b>FUND BALANCES</b>			
Nonspendable	-	105,124	105,124
Restricted	202,969	32,144	235,113
Committed	315,814	639,095	954,909
Assigned	19,960	4,803	24,763
Unassigned	233,060	-	233,060
Total fund balances	<u>771,803</u>	<u>781,166</u>	<u>1,552,969</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,792,986</u>	<u>\$ 799,306</u>	<u>\$ 4,592,292</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 the Balance Sheet of Governmental Funds to the Statement of Net Position*  
*December 31, 2013*

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Total fund balances of governmental funds (Exhibit C-1)		\$ 1,552,969
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	\$ 20,562	
Payables	<u>(20,562)</u>	
		-
Long term revenue (taxes) is not available to pay current-period expenditures and, therefore, is deferred in the governmental funds.		421,553
Allowance for uncollectible property taxes that is recognized on a full accrual basis, but not on the modified accrual basis.		(51,921)
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(26,234)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bond	\$ (1,560,000)	
Compensated absences	<u>(21,810)</u>	
		<u>(1,581,810)</u>
Net position of governmental activities (Exhibit A)		<u><u>\$ 314,557</u></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, 2013**

	General	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 1,898,914	\$ 2,044	\$ 1,900,958
Licenses and permits	581,911	-	581,911
Intergovernmental	212,709	-	212,709
Charges for services	6,531	113,476	120,007
Miscellaneous	85,039	23,782	108,821
Total revenues	<u>2,785,104</u>	<u>139,302</u>	<u>2,924,406</u>
<b>EXPENDITURES</b>			
Current:			
General government	661,613	-	661,613
Public safety	676,328	60,017	736,345
Highways and streets	213,947	-	213,947
Sanitation	210,629	-	210,629
Health	31,526	-	31,526
Welfare	2,141	-	2,141
Culture and recreation	205,723	20,859	226,582
Conservation	4,578	7,039	11,617
Debt service:			
Principal	185,000	-	185,000
Interest	79,168	-	79,168
Capital outlay	312,327	-	312,327
Total expenditures	<u>2,582,980</u>	<u>87,915</u>	<u>2,670,895</u>
Excess of revenues over expenditures	<u>202,124</u>	<u>51,387</u>	<u>253,511</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	10,758	2,422	13,180
Transfers out	(2,422)	(10,758)	(13,180)
Total other financing sources (uses)	<u>8,336</u>	<u>(8,336)</u>	<u>-</u>
Net change in fund balances	210,460	43,051	253,511
Fund balances, beginning, as restated (see Note 15)	561,343	738,115	1,299,458
Fund balances, ending	<u>\$ 771,803</u>	<u>\$ 781,166</u>	<u>\$ 1,552,969</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, 2013*

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 253,511
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	\$ 13,180	
Transfers out	<u>(13,180)</u>	
		-
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds.		
Change in deferred tax revenue	\$ (28,996)	
Change in allowance for uncollectible property taxes	<u>(51,921)</u>	
		(80,917)
The repayment of 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>3,148</u>	
		<u>6,563</u>
Change in net position of governmental activities (Exhibit B)		<u><u>\$ 364,157</u></u>

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

**EXHIBIT D**  
**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
*Schedule of Revenues, Expenditures, and Changes in Fund Balance*  
*Budget and Actual (Non-GAAP Budgetary Basis)*  
**General Fund**  
**For the Fiscal Year Ended December 31, 2013**

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,756,352	\$ 1,756,352	\$ 1,817,997	\$ 61,645
Licenses and permits	495,900	495,900	581,911	86,011
Intergovernmental	163,748	202,268	212,709	10,441
Charges for services	3,500	3,500	6,531	3,031
Miscellaneous	14,300	14,300	51,127	36,827
Total revenues	<u>2,433,800</u>	<u>2,472,320</u>	<u>2,670,275</u>	<u>197,955</u>
<b>EXPENDITURES</b>				
Current:				
General government	694,435	694,435	662,163	32,272
Public safety	710,765	710,765	676,328	34,437
Highways and streets	246,360	284,880	213,947	70,933
Sanitation	226,400	226,400	210,629	15,771
Health	29,400	29,400	31,526	(2,126)
Welfare	8,750	8,750	2,141	6,609
Culture and recreation	147,440	147,440	139,918	7,522
Conservation	4,578	4,578	4,578	-
Debt service:				
Principal	185,000	185,000	185,000	-
Interest	81,400	81,400	79,168	2,232
Capital outlay	35,000	35,000	35,000	-
Total expenditures	<u>2,369,528</u>	<u>2,408,048</u>	<u>2,240,398</u>	<u>167,650</u>
Excess of revenues over expenditures	<u>64,272</u>	<u>64,272</u>	<u>429,877</u>	<u>365,605</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	10,758	10,758
Transfers out	(244,272)	(244,272)	(267,420)	(23,148)
Total other financing sources (uses)	<u>(244,272)</u>	<u>(244,272)</u>	<u>(256,662)</u>	<u>(12,390)</u>
Net change in fund balance	<u>\$ (180,000)</u>	<u>\$ (180,000)</u>	173,215	<u>\$ 353,215</u>
Unassigned fund balance, beginning			429,477	
Unassigned fund balance, ending			<u>\$ 602,692</u>	

\*The net change in fund balance was included in the budget as an appropriation (spenddown) of fund balance.

*EXHIBIT E-1*  
**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
*Fiduciary Funds*  
**Statement of Fiduciary Net Position**  
**December 31, 2013**

	Private Purpose Trust	Agency
<b>ASSETS</b>		
Investments	\$ 131,166	\$ 287,347
<b>LIABILITIES</b>		
Due to other governmental units	-	51,897
Due to others	-	235,450
Total liabilities	-	287,347
<b>NET POSITION</b>		
Held in trust for specific purposes	\$ 131,166	\$ -

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, 2013**

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	Private Purpose Trust
<b>ADDITIONS</b>	
New funds	\$ 28,918
Interest	8,096
Change in fair market value	2,359
Total additions	<u>39,373</u>
<b>DEDUCTIONS</b>	
Scholarships	<u>12,000</u>
Change in net position	27,373
Net position, beginning	103,793
Net position, ending	<u><u>\$ 131,166</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, 2013**

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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, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

***1-A Reporting Entity***

The Town of 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 Government-wide and Fund Financial Statements***

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

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.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. As in the Statement of Net Position mentioned above, the Town has not recorded depreciation expense nor the other postemployment benefit expense in this statement.

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when 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.



**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 fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for State shared revenue, reimbursement-based grants and interest which use one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, licenses and permits, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlement, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

The Town reports the following major governmental fund:

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

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

Additionally, the Town reports the following fund types:

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

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

**Fiduciary Funds** – The Town also reports the following fiduciary funds:

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

**Private Purpose Trust Fund** – used to account for assets held for the benefit of students.

***1-D Cash and Cash Equivalents***

The Town considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and cash equivalents."

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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 of the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations to the State of New Hampshire in value at least equal to the amount of the deposit in each case.

***1-E Restricted Assets***

Certain cash and investment balances are classified as restricted assets on the balance sheet because their use is designated for a specific purpose and therefore not available for immediate and general use by the Town.

***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.

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-G 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, billing for charges, and other user fees.

***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 Deferred Inflows of Resources***

In addition to liabilities, the Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

***1-J Property Taxes***

Property tax billings occur semi-annually and are based on the assessed inventory values as of April 1 of each year. Billings for the year were on June 5, 2013 and November 20, 2013. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

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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, Hampton Falls School District, Winnacunnet Cooperative School District, and Rockingham County, which are remitted to these entities as required by law.

The Town net assessed valuation as of April 1, 2013 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 405,998,000
For all other taxes	\$ 414,194,910

The tax rates and amounts assessed for the year ended December 31, 2013 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	<u>\$4.37</u>	<u>\$ 1,806,827</u>
School portion:		
State of New Hampshire	\$2.42	984,067
Local	\$12.33	5,107,253
County portion	\$1.07	<u>444,612</u>
Total		<u><u>\$ 8,342,759</u></u>

***1-K Compensated Absences***

The Town's policy allows certain employees to earn varying amounts of vacation leave based on the employee's length of employment. Upon separation from service, employees are paid in full for any accrued leave earned as set forth by personnel policy. The liability for such leave is reported as incurred in the government-wide and financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

***1-L Long-Term Obligations***

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

***1-M 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-N 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.

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***1-O Net Position/Fund Balance Reporting***

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

- a) *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets. Because the Town has not reported any of its capital assets, this amount is a negative balance.
- b) *Restricted net position* – Consists of net position with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) *Unrestricted net position* – Net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

**Nonspendable** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) are legally or contractually required to be maintained intact.

**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.

**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.

**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.

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

When multiple net position/fund balance classifications are available for use, it is the government’s policy to utilize the most restricted balances first, then the next most restricted balance as needed. When components of unrestricted fund balance are used, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last. In the general fund, the Town strives to maintain a minimum unassigned fund balance to be used for unanticipated emergencies of approximately 5-15% of general fund operating revenues or 8-17% of general fund operating expenditures.

**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.

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

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. In the fiscal year 2013, \$180,000 of the beginning general fund unassigned fund balance was applied for this purpose.

**2-B Budgetary Reconciliation to GAAP Basis**

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

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

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

Revenues and other financing sources:	
Per Exhibit D (budgetary basis)	\$ 2,681,033
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
Income earned on eliminated library fund	25,397
Interest income earned on eliminated expendable trust funds	8,515
Change in deferred tax revenue relating to 60-day revenue recognition	28,996
Change in allowance for uncollectible property taxes	51,921
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,795,862</u>
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 2,507,818
Adjustment:	
Basis differences:	
Encumbrances, beginning	22,110
Encumbrances, ending	(19,960)
GASB Statement No. 54:	
To record expendable trust expenditures during the year	274,627
To record library fund expenditures	65,705
To record heritage fund expenditures	100
To eliminate transfer between expendable trust and general fund	(194,500)
To eliminate transfer between library and general fund	(69,498)
To eliminate transfer between heritage and general fund	(1,000)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,585,402</u>

**DETAILED NOTES ON ALL FUNDS**

**NOTE 3 – CASH AND CASH EQUIVALENTS**

The Town's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held by the Town's agent in the Town's name. The FDIC currently insures the first \$250,000 of the Town's deposits at each financial institution, per case custodian. Deposit balances over \$250,000 are insured by the collateral. As of year-end, the carrying amount of the Town's deposits was \$2,823,533 and the bank balances totaled \$2,988,474.

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**NOTE 4 – INVESTMENTS**

Note 1-F describes statutory requirements covering the investment of the Town funds. The Town maintains a portfolio of 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, 2013 the Town had the following investments:

Investment type:	
Certificates of deposit	\$ 321,974
New Hampshire Public Deposit Investment Pool	554,842
Fixed income money market mutual funds	637,952
Total fair value	<u>\$ 1,514,768</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 on the Statement of Net Position.

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 1,096,255
Investments per Statement of Fiduciary Net Position (Exhibit E-1)	418,513
Total investments	<u>\$ 1,514,768</u>

**NOTE 5 – RESTRICTED CASH AND INVESTMENTS**

The following cash and/or investments are classified as restricted because of the statutory limitations placed on their use as they are earmarked for a specific purpose:

Cash and cash equivalents:	
Library fund	<u>\$ 183,761</u>
Investments:	
Expendable trust funds	317,621
Heritage fund	4,253
Total investments	<u>321,874</u>
Total restricted assets	<u>\$ 505,635</u>

**NOTE 6 – TAXES RECEIVABLE**

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of December 31, 2013. Taxes receivable by year are as follows:

Property:	
Levy of 2013	\$ 457,570
Unredeemed (under tax lien):	
Levy of 2012	92,673
Levy of 2011	34,609
Levies of 2010 and prior	46,053
Land use change	2,044
Less: allowance for estimated uncollectible taxes	(51,921) *
Net taxes receivable	<u>\$ 581,028</u>

\*The allowance for uncollectible property taxes is not recognized under the modified accrual basis of accounting (Exhibit C-1 and C-3) due to the 60 day rule as explained in Note 1-C. However, the allowance is recognized under the full accrual basis of accounting (Exhibits A and B).

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**NOTE 7 – OTHER RECEIVABLES**

Receivables at December 31, 2013, consisted of accounts (billings for police details, ambulance, and other user charges). Receivables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

Receivables as of December 31, 2013 for the Town's nonmajor funds in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

	Nonmajor Funds
Receivables:	
Accounts	\$ 33,660
Less: allowance for uncollectibles	(14,667)
Net total receivables	<u>\$ 18,993</u>

**NOTE 8 – INTERFUND BALANCES AND TRANSFERS**

**Interfund Balances** - The composition of interfund balances as of December 31, 2013 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor	\$ 12,855
Nonmajor	General	2,422
Nonmajor	Nonmajor	5,285
		<u>\$ 20,562</u>

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, 2013 is as follows:

	Transfers In:		
	General Fund	Nonmajor Fund	Total
Transfers out:			
General fund	\$ -	\$ 2,422	\$ 2,422
Nonmajor funds	10,758	-	10,758
Total	<u>\$ 10,758</u>	<u>\$ 2,422</u>	<u>\$ 13,180</u>

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 9 – INTERGOVERNMENTAL PAYABLES**

Amounts due to other governments of \$2,541,271 at December 31, 2013 consist of the following:

General fund:	
Balance of the 2013-2014 school district assessment due to the Hampton Falls School District	\$ 2,057,132
Balance of the 2013-2014 school district assessment due to the Winnacunnet Cooperative School District	484,139
Total intergovernmental payables due	<u>\$ 2,541,271</u>

**NOTE 10 – DEFERRED INFLOW OF RESOURCES**

The Town has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. Deferred inflows of resources reported in the governmental funds for unavailable revenues recorded in the amount of \$421,553 is for property taxes that have not been collected within 60 days of the fiscal year end.

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**NOTE 11 – LONG-TERM LIABILITIES**

Changes in the Town's long-term liabilities consisted of the following for the year ended December 31, 2013:

	Balance January 1, 2013	Reductions	Balance December 31, 2013	Due Within One Year
General obligation bond payable	\$ 1,745,000	\$ (185,000)	\$ 1,560,000	\$ 180,000
Compensated absences	24,958	(3,148)	21,810	-
Total long-term liabilities	<u>\$ 1,769,958</u>	<u>\$ (188,148)</u>	<u>\$ 1,581,810</u>	<u>\$ 180,000</u>

The long term bond is comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate	Outstanding at December 31, 2013
General obligation bond payable: 2010 refunding bond	\$ 2,115,000	2010	2025	3.96%	<u>\$ 1,560,000</u>

The annual requirements to amortize the general obligation bond outstanding as of December 31, 2013, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
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	120,000	41,070	161,070
2019-2023	600,000	130,470	730,470
2024-2025	240,000	16,050	256,050
Totals	<u>\$ 1,560,000</u>	<u>\$ 416,262</u>	<u>\$ 1,976,262</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 12 – ENCUMBRANCES**

Encumbrances outstanding at December 31, 2013 are as follows:

General fund:	
Financial administration	\$ 550
Capital outlay	19,410
Total encumbrances	<u>\$ 19,960</u>

**NOTE 13 – GOVERNMENTAL ACTIVITIES NET POSITION**

Governmental activities net position reported on the government-wide Statement of Net Position at December 31, 2013 include the following:

Net investment in capital assets	
Net property, buildings, and equipment	\$ -
Less:	
General obligation bonds payable	(1,560,000)
Total net investment in capital assets	(1,560,000)
Restricted for perpetual care	137,268
Unrestricted	1,737,289
Total net position	<u>\$ 314,557</u>



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**NOTE 14 – GOVERNMENTAL FUND BALANCES**

Governmental fund balances reported on the fund financial statements at December 31, 2013 include the following:

<b>Nonspendable:</b>		
Nonmajor fund:		
Permanent - principal balance	\$	105,124
<b>Restricted:</b>		
Major fund:		
General:		
Library	\$	202,969
Nonmajor fund:		
Permanent - income balance	32,144	
Total restricted fund balance		235,113
<b>Committed:</b>		
Major fund:		
General fund:		
Expendable trust	\$	311,561
Heritage fund	4,253	
	<u>315,814</u>	
Nonmajor funds:		
Conservation commission	331,017	
Fire department vehicle	229,607	
Recreation	32,034	
Fire detail	6,474	
Police detail	39,963	
	<u>639,095</u>	
Total committed fund balance		954,909
<b>Assigned:</b>		
Major fund:		
General:		
Encumbrances	\$	19,960
Nonmajor funds:		
All other	4,803	
Total assigned fund balance		24,763
<b>Unassigned:</b>		
Major fund:		
General		233,060
Total governmental fund balances	<u>\$</u>	<u>1,552,969</u>

**NOTE 15 – PRIOR PERIOD ADJUSTMENT**

Fund balance at January 1, 2013 was restated to record prior year deferral of property taxes not collected within 60 days of year-end, as follows:

	General Fund
Adjustment	\$ (450,549)
Fund balance, as previously reported	1,011,892
Fund balance, as restated	<u>\$ 561,343</u>

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**NOTE 16 – 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 2013, all employees except police officers and firefighters were required to contribute 7% of earnable compensation. The contribution rates were 11.55% for police officers and 11.80% for firefighters. The Town's contribution rates for 2013 for pension and medical subsidy were as follows:

Period	Police	Fire	All Other Employees
January 1, 2013 thru June 30, 2013	19.95%	22.89%	8.80%
July 1, 2013 thru December 31, 2013	25.30%	27.74%	10.77%

The contribution requirements for the Town of Hampton Falls for the fiscal years 2011, 2012, and 2013 were \$81,190, \$86,551, and \$88,869, respectively, which were paid in full in each year.

**NOTE 17 – 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 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, 2013 or contracted with an actuarial firm to assist in evaluating the impact of this new standard on the Town. The amounts that should be recorded as the annual required contribution/OPEB cost and the net OPEB obligation are unknown.

**NOTE 18 – RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2013, the Town was a member of the Local Government Center Property-Liability Trust, LLC, and the New Hampshire Public Risk Management Exchange (Primex<sup>3</sup>) Workers' Compensation and Property/Liability Programs. These entities are 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.

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**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2013**

Contributions paid in the year ending December 31, 2013, to be recorded as an insurance expenditure totaled \$26,623 for workers compensation. There were no unpaid contributions for the year ended December 31, 2013.

The New Hampshire Public Risk Management Exchange (Primex<sup>3</sup>) Property/Liability Program is a pooled risk management program under RSAs 5-B and 281-A. Coverage was provided from January 1, 2013 to December 31, 2013 by Primex<sup>3</sup>, which retained \$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, 2013 was \$29,594 for property/liability.

**NOTE 19 – 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 20 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

The following GASB pronouncements were implemented by the Town for the fiscal year ended December 31, 2013. Only GASB Statement No. 65 impacted these financial statements:

**GASB Statement No. 61, *The Financial Reporting Entity: Omnibus and Amendments of GASB Statements No. 14 and No. 34***, issued November 2010. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

**GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities***, issued March 2012, has an effective date of the Town beginning with its fiscal year ending December 31, 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. This Statement is intended to resolve conflicting accounting and financial report and guidance that emerged from two recent standards, Statement No. 54 and Statement No. 62. These standards conflicted with existing guidance in Statements No. 10, 13, and 48.

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. 67, *Financial Reporting for Pension Plans***, issued in June 2012, will be effective for the Town beginning with its fiscal year ending June 30, 2014. **GASB Statement No. 68, *Accounting and Financial Reporting for Pensions***, issued in June 2012, will be effective for the Town beginning with its fiscal year ending December 31, 2015. The guidance contained in these two Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. They replace the requirements of Statements No. 27 and 50.

**GASB Statement No. 68, *Accounting and Financial Reporting for Pensions***, issued in June 2012, will be effective for the Town beginning with its fiscal year ending December 31, 2015. The guidance contained in this statement will change how governments calculate and report the costs and obligations associated with pensions in important ways. This replaces the requirements of Statements No. 27 and 50.

**GASB Statement No. 69, *Government Combinations and Disposals of Government Operations***, issued in January 2013, will be effective for the Town beginning with its fiscal year ending December 31, 2014. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations that have been transferred or sold.

***TOWN OF HAMPTON FALLS, NEW HAMPSHIRE***  
***NOTES TO THE BASIC FINANCIAL STATEMENTS***  
***AS OF AND FOR THE FISCAL YEAR ENDED***  
***DECEMBER 31, 2013***

*GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued in April 2013, will be effective for the Town beginning with the fiscal year ending December 31, 2014. The objective of this statement is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees.

*GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, issued in November 2013, will be effective for the Town beginning with its fiscal year ending December 31, 2015. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*, and is required to be applied simultaneously with the provisions of that Statement.

***NOTE 21– 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 May 7, 2014, the date the December 31, 2013 financial statements were available to be issued, and no events occurred that require recognition or disclosure.

***COMBINING AND INDIVIDUAL FUND SCHEDULES***

**SCHEDULE 1**  
**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
**Major General Fund**  
*Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)*  
*For the Fiscal Year Ended December 31, 2013*

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 1,693,252	\$ 1,755,129	\$ 61,877
Land use change	11,400	13,520	2,120
Yield	1,700	1,739	39
Interest and penalties on taxes	50,000	47,609	(2,391)
Total from taxes	<u>1,756,352</u>	<u>1,817,997</u>	<u>61,645</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	1,500	2,106	606
Motor vehicle permit fees	470,000	546,145	76,145
Building permits	11,100	17,417	6,317
Other	13,300	16,243	2,943
Total from licenses, permits, and fees	<u>495,900</u>	<u>581,911</u>	<u>86,011</u>
Intergovernmental:			
State:			
Meals and rooms distribution	99,654	99,654	-
Highway block grant	56,594	56,642	48
Other	2,500	3,222	722
Federal:			
Other	43,520	53,191	9,671
Total from intergovernmental	<u>202,268</u>	<u>212,709</u>	<u>10,441</u>
Charges for services:			
Income from departments	<u>3,500</u>	<u>6,531</u>	<u>3,031</u>
Miscellaneous:			
Interest on investments	7,000	5,363	(1,637)
Rent of property	-	664	664
Other	7,300	45,100	37,800
Total from miscellaneous	<u>14,300</u>	<u>51,127</u>	<u>36,827</u>
Other financing sources:			
Transfers in	<u>-</u>	<u>10,758</u>	<u>10,758</u>
Total revenues and other financing sources	<u>2,472,320</u>	<u>\$ 2,681,033</u>	<u>\$ 208,713</u>
Unassigned fund balance used to reduce tax rate	<u>180,000</u>		
Total revenues, other financing sources, and use of fund balance	<u>\$ 2,652,320</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, 2013**

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 97,710	\$ 98,793	\$ -	\$ (1,083)
Election and registration	-	67,005	55,961	-	11,044
Financial administration	-	123,955	116,716	550	6,689
Legal	-	11,000	12,844	-	(1,844)
Personnel administration	-	278,200	266,379	-	11,821
Planning and zoning	-	29,665	27,210	-	2,455
General government buildings	-	40,500	41,285	-	(785)
Cemeteries	-	11,800	11,831	-	(31)
Insurance, not otherwise allocated	-	30,600	30,594	-	6
Other	-	4,000	-	-	4,000
Total general government	-	694,435	661,613	550	32,272
Public safety:					
Police	-	434,990	412,933	-	22,057
Ambulance	-	55,610	58,812	-	(3,202)
Fire	-	186,845	181,168	-	5,677
Building inspection	-	25,470	18,693	-	6,777
Emergency management	-	7,850	4,722	-	3,128
Total public safety	-	710,765	676,328	-	34,437
Highways and streets:					
Highways and streets	-	281,280	210,031	-	71,249
Street lighting	-	3,600	3,916	-	(316)
Total highways and streets	-	284,880	213,947	-	70,933
Sanitation:					
Solid waste collection	-	152,400	152,840	-	(440)
Solid waste disposal	-	74,000	57,789	-	16,211
Total sanitation	-	226,400	210,629	-	15,771
Health:					
Administration	-	4,300	6,269	-	(1,969)
Health agencies	-	22,500	22,500	-	-
Other	-	2,600	2,757	-	(157)
Total health	-	29,400	31,526	-	(2,126)
Welfare:					
Direct assistance	-	8,750	2,141	-	6,609
Culture and recreation:					
Parks and recreation	-	21,500	24,719	-	(3,219)
Library	-	125,340	114,827	-	10,513
Patriotic purposes	-	600	372	-	228
Total culture and recreation	-	147,440	139,918	-	7,522
Conservation	-	4,578	4,578	-	-
Debt service:					
Principal of long-term debt	-	185,000	185,000	-	-
Interest on long-term debt	-	80,400	79,168	-	1,232
Interest on tax anticipation notes	-	1,000	-	-	1,000
Total debt service	-	266,400	264,168	-	2,232

(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, 2013*

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Capital outlay:					
Machinery, equipment, and vehicles	11,565	5,000	8,749	7,816	-
Buildings	3,196	-	351	2,845	-
Improvements other than buildings	7,349	30,000	28,600	8,749	-
Total capital outlay	<u>22,110</u>	<u>35,000</u>	<u>37,700</u>	<u>19,410</u>	<u>-</u>
Other financing uses:					
Transfers out	<u>-</u>	<u>244,272</u>	<u>267,420</u>	<u>-</u>	<u>(23,148)</u>
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 22,110</u>	<u>\$ 2,652,320</u>	<u>\$ 2,509,968</u>	<u>\$ 19,960</u>	<u>\$ 144,502</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, 2013*

Unassigned fund balance, beginning		\$ 429,477
Changes:		
Unassigned fund balance used to reduce 2013 tax rate		(180,000)
2013 Budget summary:		
Revenue surplus	\$ 208,713	
Unexpended balance of appropriations	<u>144,502</u>	
2013 Budget surplus		<u>353,215</u>
Unassigned fund balance, ending (Non-GAAP budgetary basis)		<u>602,692</u>
<b><i>Reconciling of Non-GAAP Basis to GAAP Basis</i></b>		
To comply with generally accepted accounting principles by deferring property taxes not collected within 60 days of year-end		<u>(421,553)</u>
Elimination of the allowance for uncollectible taxes		<u>51,921</u>
Unassigned fund balance, ending, GAAP basis (Exhibit C-1)		<u><u>\$ 233,060</u></u>

**SCHEDULE 4**  
**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
*Nonmajor Governmental Funds*  
**Combining Balance Sheet**  
**December 31, 2013**

	Special Revenue Funds						
	Conservation Commission	Fire Department Vehicle	Recreation	Fire Detail	Police Detail	All Other	Permanent Fund
<b>ASSETS</b>							Total
Investments	\$ 326,551	\$ 211,313	\$ 32,034	\$ 11,759	\$ 46,834	\$ 4,803	\$ 137,268
Receivables, net of allowance for uncollectable:							\$ 770,562
Taxes	2,044	-	-	-	-	-	-
Accounts	-	17,278	-	-	1,715	-	-
Interfund receivable	2,422	5,285	-	-	-	-	-
Total assets	\$ 331,017	\$ 233,876	\$ 32,034	\$ 11,759	\$ 48,549	\$ 4,803	\$ 137,268
							\$ 799,306
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Interfund payable	\$ -	\$ 4,269	\$ -	\$ 5,285	\$ 8,586	\$ -	\$ -
							\$ 18,140
<b>Fund balances:</b>							
Nonspendable	-	-	-	-	-	-	105,124
Restricted	-	-	-	-	-	-	32,144
Committed	331,017	229,607	32,034	6,474	39,963	-	639,095
Assigned	-	-	-	-	-	4,803	4,803
Total fund balances	331,017	229,607	32,034	6,474	39,963	4,803	137,268
							781,166
Total liabilities and fund balances	\$ 331,017	\$ 233,876	\$ 32,034	\$ 11,759	\$ 48,549	\$ 4,803	\$ 137,268
							\$ 799,306

**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, 2013**

	Special Revenue Funds						
	Conservation Commission	Fire Department Vehicle	Recreation	Fire Detail	Police Detail	All Other	Permanent Fund
Revenues:							
Taxes	\$ 2,044	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	46,628	10,074	13,053	43,721	-	-
Miscellaneous	1,141	66	11	1	19	10,571	11,973
Total revenues	3,185	46,694	10,085	13,054	43,740	10,571	11,973
Expenditures:							
Current:							
Public safety	-	6,860	-	8,330	44,827	-	-
Culture and recreation	-	-	3,808	-	-	17,051	-
Conservation	7,039	-	-	-	-	-	-
Total expenditures	7,039	6,860	3,808	8,330	44,827	17,051	-
Excess (deficiency) of revenues over (under) expenditures	(3,854)	39,834	6,277	4,724	(1,087)	(6,480)	11,973
Other financing sources (uses):							
Transfers in	2,422	-	-	-	-	-	-
Transfers out	-	-	(6,858)	-	-	-	(3,900)
Total other financing sources (uses)	2,422	-	(6,858)	-	-	-	(3,900)
Net change in fund balances	(1,432)	39,834	(581)	4,724	(1,087)	(6,480)	8,073
Fund balances, beginning	332,449	189,773	32,615	1,750	41,050	11,283	129,195
Fund balances, ending	\$ 331,017	\$ 229,607	\$ 32,034	\$ 6,474	\$ 39,963	\$ 4,803	\$ 137,268
							\$ 781,166



## **PLODZIK & SANDERSON**

*Professional Association/Accountants & Auditors*

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### ***INDEPENDENT AUDITOR'S COMMUNICATION OF MATERIAL WEAKNESS OF SIGNIFICANT DEFICIENCIES***

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

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hampton Falls as of and for the year ended December 31, 2013, 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 Hampton Fall'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 Hampton Falls internal control to be a material weakness:

#### **Property Tax Warrants & Reporting**

During review of the committed property taxes it was noted that the actual property tax warrants were not reconciled to the total commitment or to the tax software. It was also noted that the reporting per the tax software is not being reconciled to the general ledger, and the annual MS-61 Form did not reconcile. The tax records must be reconciled with the general ledger on a monthly basis. There is a definite need for improvement in this major area of Town revenue.

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 Hampton Fall's internal control to be significant deficiencies:

#### **Bank Account Access**

It was noted during testing of the internal controls over cash that the Trustees of Trust Funds have electronic access to the Town's bank account. State statutes require that all funds be held by the Town Treasurer. The Treasurer should be the only individual with direct access to the Town's general fund bank accounts. Any receipts or disbursements required for activity between the Trustees of Trust Funds should be processed through the Town's cash receipt and disbursement procedures in accordance with good internal controls.

*Town of Hampton Falls*

*Independent Auditor's Communication of Material Weakness and Significant Deficiencies*

**Cash Disbursements**

It was also noted during review of the Town's cash accounts that a separate check book was being used by the Treasurer to process transfers between different accounts. Because of the way these transactions were processed there was no review of the disbursements by the Board of Selectmen. Per State statutes the Treasurer is authorized to disburse funds only on orders of the Board of Selectmen. Disbursements from all of the Town's general accounts should be processed at the Town Hall and through the established internal control procedures.

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.

May 7, 2014

*Plodzik & Sanderson  
Professional Association*