

**TOWN OF HAMPTON FALLS,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014**

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
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DECEMBER 31, 2014

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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 aggregate remaining fund information of the Town of Hampton Falls as of and for the year ended December 31, 2014, 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, 2014, 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 aggregate remaining fund information of the Town of Hampton Falls as of December 31, 2014, and the respective changes in financial position, and the respective budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management's Discussion and Analysis – Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Supplementary 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.

April 28, 2015

*Plodzik & Sanderson
Professional Association*

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Statement of Net Position
December 31, 2014

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 3,129,590
Investments	1,317,995
Taxes receivable (net)	429,425
Accounts receivable (net)	35,500
Total assets	<u>4,912,510</u>
LIABILITIES	
Accounts payable	23,364
Accrued salaries and benefits	73
Accrued interest payable	22,912
Intergovernmental payable	2,633,270
Long-term liabilities:	
Due within one year	180,000
Due in more than one year	1,220,219
Total liabilities	<u>4,079,838</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - Property taxes	8,628
Unavailable revenue - Donations	610
Total deferred inflows of resources	<u>9,238</u>
NET POSITION	
Net investment in capital assets	(1,380,000)
Restricted	144,969
Unrestricted	2,058,465
Total net position	<u>\$ 823,434</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, 2014

		Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change In Net Position
	Expenses				
General government	\$ 673,667	\$ 2,124	\$ 5,595	\$ -	\$ (665,948)
Public safety	722,249	61,996	-	-	(660,253)
Highways and streets	341,674	42,294	57,047	4,480	(237,853)
Sanitation	196,855	3,821	-	-	(193,034)
Health	56,796	-	-	-	(56,796)
Welfare	1,898	-	-	-	(1,898)
Culture and recreation	296,677	18,658	-	-	(278,019)
Conservation	3,353	-	-	-	(3,353)
Interest on long-term debt	62,396	-	-	-	(62,396)
Capital outlay	26,129	-	-	-	(26,129)
Total governmental activities	<u>\$ 2,381,694</u>	<u>\$ 128,893</u>	<u>\$ 62,642</u>	<u>\$ 4,480</u>	<u>(2,185,679)</u>
General revenues:					
Taxes:					
Property					1,789,729
Other					67,352
Motor vehicle permit fees					579,164
Licenses and other fees					43,289
Grants and contributions not restricted to specific programs					108,040
Unrestricted investment earnings					16,229
Miscellaneous					90,753
Total general revenues					<u>2,694,556</u>
Change in net position					508,877
Net position, beginning					314,557
Net position, ending					<u>\$ 823,434</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, 2014

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,931,590	\$ -	\$ 2,931,590
Investments	3,179	826,546	829,725
Receivables, net of allowance for uncollectible:			
Taxes	488,724	2,044	490,768
Accounts	-	35,500	35,500
Interfund receivable	7,306	4,648	11,954
Restricted assets:			
Cash and cash equivalents	198,000	-	198,000
Investments	488,270	-	488,270
Total assets	<u>\$ 4,117,069</u>	<u>\$ 868,738</u>	<u>\$ 4,985,807</u>
LIABILITIES			
Accounts payable	\$ 23,364	\$ -	\$ 23,364
Accrued salaries and benefits	73	-	73
Due to other governments	2,633,270	-	2,633,270
Interfund payable	4,648	7,306	11,954
Total liabilities	<u>2,661,355</u>	<u>7,306</u>	<u>2,668,661</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - Property taxes	69,393	-	69,393
Unavailable revenue - Donations	610	-	610
Total deferred inflows of resources	<u>70,003</u>	<u>-</u>	<u>70,003</u>
FUND BALANCES			
Nonspendable	-	108,123	108,123
Restricted	204,350	36,846	241,196
Committed	487,683	712,784	1,200,467
Assigned	50,624	3,679	54,303
Unassigned	643,054	-	643,054
Total fund balances	<u>1,385,711</u>	<u>861,432</u>	<u>2,247,143</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,117,069</u>	<u>\$ 868,738</u>	<u>\$ 4,985,807</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, 2014

Total fund balances of governmental funds (Exhibit C-1)		\$ 2,247,143
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	\$ (11,954)	
Payables	<u>11,954</u>	
		-
Long term revenue (taxes) is not available to pay current-period expenditures and therefore, is deferred in the governmental funds.		60,765
Allowance for uncollectible property taxes that is recognized on a full accrual basis, but not on the modified accrual basis.		(61,343)
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(22,912)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bond	\$ (1,380,000)	
Compensated absences	<u>(20,219)</u>	
		<u>(1,400,219)</u>
Net position of governmental activities (Exhibit A)		<u><u>\$ 823,434</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, 2014

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 1,897,036	\$ -	\$ 1,897,036
Licenses and permits	622,453	-	622,453
Intergovernmental	175,162	-	175,162
Charges for services	6,495	122,398	128,893
Miscellaneous	90,798	16,184	106,982
Total revenues	<u>2,791,944</u>	<u>138,582</u>	<u>2,930,526</u>
EXPENDITURES			
Current:			
General government	676,062	-	676,062
Public safety	687,021	37,444	724,465
Highways and streets	341,674	-	341,674
Sanitation	196,855	-	196,855
Health	56,796	-	56,796
Welfare	1,898	-	1,898
Culture and recreation	271,637	22,020	293,657
Conservation	3,353	-	3,353
Debt service:			
Principal	180,000	-	180,000
Interest	65,718	-	65,718
Capital outlay	26,129	-	26,129
Total expenditures	<u>2,507,143</u>	<u>59,464</u>	<u>2,566,607</u>
Excess of revenues over expenditures	<u>284,801</u>	<u>79,118</u>	<u>363,919</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	3,500	4,648	8,148
Transfers out	(4,648)	(3,500)	(8,148)
Total other financing sources (uses)	<u>(1,148)</u>	<u>1,148</u>	<u>-</u>
Net change in fund balances	283,653	80,266	363,919
Fund balances, beginning, as restated (see Note 15)	1,102,058	781,166	1,883,224
Fund balances, ending	<u>\$ 1,385,711</u>	<u>\$ 861,432</u>	<u>\$ 2,247,143</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, 2014

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 363,919
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	\$ (8,148)	
Transfers out	<u>8,148</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	\$ (30,533)	
Change in allowance for uncollectible property taxes	<u>(9,422)</u>	
		(39,955)
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		180,000
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	\$ 3,322	
Decrease in compensated absences payable	<u>1,591</u>	
		<u>4,913</u>
Changes in net position of governmental activities (Exhibit B)		<u><u>\$ 508,877</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 Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2014

	Budgeted Amounts			Variance
	Original	Final	Actual	Positive (Negative)
REVENUES				
Taxes	\$ 1,843,913	\$ 1,843,913	\$ 1,857,081	\$ 13,168
Licenses and permits	527,000	527,000	622,453	95,453
Intergovernmental	167,087	167,087	175,162	8,075
Charges for services	4,000	4,000	6,495	2,495
Investment earnings	5,000	5,000	3,802	(1,198)
Miscellaneous	30,600	600	31,991	31,391
Total revenues	<u>2,577,600</u>	<u>2,547,600</u>	<u>2,696,984</u>	<u>149,384</u>
EXPENDITURES				
Current:				
General government	731,580	731,580	655,512	76,068
Public safety	734,445	734,445	711,440	23,005
Highways and streets	250,360	250,360	257,601	(7,241)
Sanitation	229,540	229,540	196,855	32,685
Health	58,165	58,165	56,796	1,369
Welfare	7,000	7,000	1,898	5,102
Culture and recreation	230,140	199,140	194,830	4,310
Conservation	8,000	8,000	3,353	4,647
Debt service:				
Principal	180,000	180,000	180,000	-
Interest	70,920	70,920	65,718	5,202
Capital outlay	31,500	31,500	31,099	401
Total expenditures	<u>2,531,650</u>	<u>2,500,650</u>	<u>2,355,102</u>	<u>145,548</u>
Excess of revenues over expenditures	<u>45,950</u>	<u>46,950</u>	<u>341,882</u>	<u>294,932</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	7,550	7,550	7,050	(500)
Transfers out	(303,500)	(304,500)	(309,148)	4,648
Total other financing sources (uses)	<u>(295,950)</u>	<u>(296,950)</u>	<u>(302,098)</u>	<u>4,148</u>
Net change in fund balances	<u>\$ (250,000)</u>	<u>\$ (250,000)</u>	39,784	<u>\$ 299,080</u>
Unassigned fund balance, beginning			602,692	
Unassigned fund balance, ending			<u>\$ 642,476</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, 2014

	Private Purpose Trust	Agency	Total
ASSETS			
Investments	\$ 158,709	\$ 291,874	\$ 450,583
LIABILITIES			
Due to other governmental units	-	103,938	103,938
Due to others	-	187,936	187,936
Total liabilities	-	291,874	291,874
NET POSITION			
Held in trust for specific purposes	\$ 158,709	\$ -	\$ 158,709

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, 2014

	Private Purpose Trust
ADDITIONS	
New funds	\$ 29,013
Interest	4,630
Change in fair market value	6,400
Total revenue	40,043
DEDUCTIONS	
Scholarships	12,500
Change in net position	27,543
Net position, beginning	131,166
Net position, ending	\$ 158,709

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, 2014

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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, 2014

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 is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. 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 other postemployment benefit expense in this statement.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise 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
DECEMBER 31, 2014

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 fund types:

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 others.

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.

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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 Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items, which arise only under the modified accrual basis of accounting, which qualify for reporting in this category. Accordingly, these items, unavailable tax revenue, and donations are reported only in the governmental funds balance sheet. These amounts are deferred and recognized as inflows of resources in the period that the amounts become 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 May 21, 2014 and November 5, 2014. 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, 2014 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 408,706,900
For all other taxes	\$ 414,826,706

The tax rates and amounts assessed for the year ended December 31, 2014 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$4.52	\$ 1,872,723
School portion:		
State of New Hampshire	\$2.44	998,345
Local	\$12.60	5,226,260
County portion	\$1.08	449,763
Total		<u>\$ 8,547,091</u>

1-K Compensated Absences

The Town's policy allows certain employees to earn varying amounts of vacation 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 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" (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.

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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-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 or other borrowings 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* – All other 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 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.

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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. For the fiscal year 2014, \$250,000 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, Expenditures, and Changes in Fund Balance – 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)	\$ 2,704,034
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
To record miscellaneous income of the blended funds	55,005
To eliminate transfers between blended funds	(3,550)
Change in deferred tax revenue relating to 60-day revenue recognition	30,533
Change in allowance for uncollectible property taxes	9,422
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,795,444</u>
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 2,664,250
Adjustment:	
Basis differences:	
Encumbrances, beginning	19,960
Encumbrances, ending	(50,624)
GASB Statement No. 54:	
To record expenditures of the blended funds during the year	182,705
To eliminate transfers between general and expendable trust funds	(304,500)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,511,791</u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

The Town's deposits 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 \$3,129,590 and the bank balances totaled \$3,216,943. Petty cash totaled \$50.

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NOTE 4 – INVESTMENTS

Note 1-F describes statutory requirements covering the investment of the Town funds. The Town also 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 investments.

At December 31, 2014, this Town had the following investments:

	<u>Fair Value</u>
Investments type:	
New Hampshire Public Deposit Investment Pool	\$ 555,011
Mutual funds	890,572
Certificates of deposit	322,995
Total fair value	<u>\$ 1,768,578</u>

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 1,317,995
Investments per Statement of Fiduciary Net Position (Exhibit E-1)	450,583
Total investments	<u>\$ 1,768,578</u>

NOTE 5 – RESTRICTED CASH AND INVESTMENTS

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

Cash and cash equivalents:	
Library fund	<u>\$ 198,000</u>
Investments:	
Expendable trust funds	482,954
Heritage fund	5,316
Total investments	<u>488,270</u>
Total restricted assets	<u>\$ 686,270</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, 2014. The amount has been reduced by an allowance for an estimated uncollectible amount of \$61,343. Taxes receivable by year are as follows:

	<u>As reported on:</u>	
	<u>Exhibit A</u>	<u>Exhibit C-1</u>
Property:		
Levy of 2014	\$ 361,314	\$ 361,314
Unredeemed (under tax lien):		
Levy of 2013	60,249	60,249
Levy of 2012	34,722	34,722
Levies of 2011 and prior	32,439	32,439
Land use change	2,044	2,044
Less: allowance for estimated uncollectible taxes	(61,343)	-
Net taxes receivable	<u>\$ 429,425</u>	<u>\$ 490,768</u>

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NOTE 7 – OTHER RECEIVABLES

Receivables at December 31, 2014, 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.

Receivables as of December 31, 2014 for the Town's nonmajor funds in the aggregate including applicable allowances for uncollectible accounts are as follows:

	Nonmajor Funds
Receivables:	
Accounts	\$ 50,341
Less: allowance for uncollectibles	(14,841)
Net total receivables	<u>\$ 35,500</u>

NOTE 8 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor	\$ 7,306
Nonmajor	General	4,648
		<u>\$ 11,954</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, 2014 is as follows:

	Transfers In:		
	General Fund	Nonmajor Fund	Total
Transfers out:			
General fund	\$ -	\$ 4,648	\$ 4,648
Nonmajor fund	3,500	-	3,500
Total	<u>\$ 3,500</u>	<u>\$ 4,648</u>	<u>\$ 8,148</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 \$2,737,208 at December 31, 2014 consist of the following:

General fund:	
Balance of the 2014-2015 school district assessment due to:	
Hampton Falls School District	\$ 2,137,294
Winnacunnet Cooperative School District	495,976
Total general fund	<u>2,633,270</u>
Agency fund:	
Balance of expendable trust funds due to the Hampton Falls School District	103,938
Total intergovernmental payables due	<u>\$ 2,737,208</u>

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NOTE 10 – DEFERRED INFLOW OF RESOURCES

Deferred inflows of resources of \$70,003 in the general fund at December 31, 2014 consist of the following:

	General Fund
Property taxes not collected within 60 days of year-end	\$ 60,765
Property taxes received in advance of assessments	8,628
Private donations collected in advance of eligible expenditure being made	610
Total deferred inflows of resources	<u>\$ 70,003</u>

NOTE 11 – LONG-TERM LIABILITIES

Changes in the Town's long-term liabilities consisted of the following for the year ended December 31, 2014:

	Balance January 1, 2014	Reductions	Balance December 31, 2014	Due Within One Year
General obligation bond payable	\$ 1,560,000	\$ (180,000)	\$ 1,380,000	\$ 180,000
Compensated absences	21,810	(1,591)	20,219	-
Total long-term liabilities	<u>\$ 1,581,810</u>	<u>\$ (181,591)</u>	<u>\$ 1,400,219</u>	<u>\$ 180,000</u>

Long-term bond is comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2014	Current Portion
General obligation bond payable:						
2010 refunding bond	\$ 2,115,000	2010	2025	3.96%	<u>\$ 1,380,000</u>	<u>\$ 180,000</u>

The annual requirements to amortize the general obligation bond outstanding as of December 31, 2014, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
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	120,000	36,150	156,150
2020-2024	600,000	104,970	704,970
2025	120,000	5,400	125,400
Totals	<u>\$ 1,380,000</u>	<u>\$ 346,344</u>	<u>\$ 1,726,344</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, 2014 are as follows:

General fund:	
Public safety	\$ 26,244
Capital outlay	24,380
Total encumbrances	<u>\$ 50,624</u>

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NOTE 13 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the government-wide Statement of Net Position at December 31, 2014 include the following:

Net investment in capital assets:	
Net property, buildings, and equipment	\$ -
Less:	
General obligation bonds payable	(1,380,000)
Total net investment in capital assets	(1,380,000)
Restricted for perpetual care	144,969
Unrestricted	2,058,465
Total net position	<u>\$ 823,434</u>

NOTE 14 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2014 include the following:

	General Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable:			
Permanent fund - principal balance	\$ -	\$ 108,123	\$ 108,123
Restricted:			
Library	204,350	-	204,350
Permanent fund - income balance	-	36,846	36,846
Total restricted fund balance	<u>204,350</u>	<u>36,846</u>	<u>241,196</u>
Committed:			
Expendable trust	482,367	-	482,367
Heritage fund	5,316	-	5,316
Conservation commission	-	336,687	336,687
Fire department vehicle	-	290,040	290,040
Recreation	-	33,701	33,701
Fire detail	-	8,814	8,814
Police detail	-	43,542	43,542
Total committed fund balance	<u>487,683</u>	<u>712,784</u>	<u>1,200,467</u>
Assigned:			
Encumbrances	50,624	-	50,624
All other	-	3,679	3,679
Total assigned fund balance	<u>50,624</u>	<u>3,679</u>	<u>54,303</u>
Unassigned	<u>643,054</u>	<u>-</u>	<u>643,054</u>
Total governmental fund balances	<u>\$ 1,385,711</u>	<u>\$ 861,432</u>	<u>\$ 2,247,143</u>

NOTE 15 – PRIOR PERIOD ADJUSTMENT

Fund balance at January 1, 2014 was restated to give retroactive effect to the following prior period adjustment:

	General Fund
To adjust for school and county taxes previously deferred	\$ 330,255
Fund balance, as previously reported	771,803
Fund balance, as restated	<u>\$ 1,102,058</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 2014, 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 2014 for pension and medical subsidy were 10.77% for all employees except police officers and firefighters, 25.30% for police officers and 27.74% for firefighters.

The contribution requirements for the Town of Hampton Falls for the fiscal years 2012, 2013, and 2014 were \$86,551, \$88,869, and \$97,365, 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, 2014 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 2014, the Town was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pool, currently operating as common risk management and insurance programs for member Towns and cities.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from January 1, 2014 to December 31, 2014 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, 2014 was \$22,763 for workers' compensation and \$28,499 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.

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NOTE 20 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

The following GASB pronouncements were implemented by the Town for the fiscal year ended December 31, 2014, none of which impacted these financial statements:

GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued in June 2012. The guidance contained in this Statement 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. 69, *Government Combinations and Disposals of Government Operations*, issued in January 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations that have been transferred or sold.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued in April 2013. The objective of this Statement is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees.

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. 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. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, issued in November 2013, should be implemented simultaneously with the provision of Statement No. 68, beginning with the fiscal year ending December 31, 2015. This statement addresses an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defend benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

GASB Statement No. 72, *Fair Value Measurement and Application*, issued in February 2015, will be effective for the Town beginning with the fiscal year ending December 31, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements.

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 April 28, 2015, the date the December 31, 2014 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, 2014

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 1,793,213	\$ 1,789,729	\$ (3,484)
Yield	700	775	75
Payment in lieu of taxes	-	15,090	15,090
Interest and penalties on taxes	50,000	51,487	1,487
Total from taxes	<u>1,843,913</u>	<u>1,857,081</u>	<u>13,168</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	2,400	1,729	(671)
Motor vehicle permit fees	500,000	579,164	79,164
Building permits	13,500	28,454	14,954
Other	11,100	13,106	2,006
Total from licenses, permits, and fees	<u>527,000</u>	<u>622,453</u>	<u>95,453</u>
Intergovernmental:			
State:			
Meals and rooms distribution	108,040	108,040	-
Highway block grant	57,047	57,047	-
Other	2,000	10,075	8,075
Total from intergovernmental	<u>167,087</u>	<u>175,162</u>	<u>8,075</u>
Charges for services:			
Income from departments	<u>4,000</u>	<u>6,495</u>	<u>2,495</u>
Miscellaneous:			
Interest on investments	5,000	3,802	(1,198)
Rent of property	-	161	161
Other	600	31,830	31,230
Total from miscellaneous	<u>5,600</u>	<u>35,793</u>	<u>30,193</u>
Other financing sources:			
Transfers in	<u>7,550</u>	<u>7,050</u>	<u>(500)</u>
Total revenues and other financing sources	<u>2,555,150</u>	<u>\$ 2,704,034</u>	<u>\$ 148,884</u>
Unassigned fund balance used to reduce tax rate	<u>250,000</u>		
Total revenues, other financing sources, and use of fund balance	<u>\$ 2,805,150</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, 2014

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 102,965	\$ 90,773	\$ -	\$ 12,192
Election and registration	-	76,250	64,108	-	12,142
Financial administration	550	113,215	94,191	-	19,574
Legal	-	15,500	6,617	-	8,883
Personnel administration	-	282,550	269,970	-	12,580
Planning and zoning	-	51,140	48,208	-	2,932
General government buildings	-	44,250	42,040	-	2,210
Cemeteries	-	12,200	10,281	-	1,919
Insurance, not otherwise allocated	-	29,510	28,499	-	1,011
Other	-	4,000	1,375	-	2,625
Total general government	550	731,580	656,062	-	76,068
Public safety:					
Police	-	437,500	418,548	13,808	5,144
Ambulance	-	58,000	54,246	-	3,754
Fire	-	198,275	185,974	7,106	5,195
Building inspection	-	24,970	17,993	-	6,977
Emergency management	-	15,700	8,435	5,330	1,935
Total public safety	-	734,445	685,196	26,244	23,005
Highways and streets:					
Highways and streets	-	246,660	253,671	-	(7,011)
Street lighting	-	3,700	3,930	-	(230)
Total highways and streets	-	250,360	257,601	-	(7,241)
Sanitation:					
Solid waste collection	-	152,900	138,770	-	14,130
Solid waste disposal	-	76,640	58,085	-	18,555
Total sanitation	-	229,540	196,855	-	32,685
Health:					
Administration	-	4,490	6,004	-	(1,514)
Pest control	-	32,600	29,717	-	2,883
Health agencies	-	21,075	21,075	-	-
Total health	-	58,165	56,796	-	1,369
Welfare:					
Administration	-	2,850	1,833	-	1,017
Direct assistance	-	4,150	65	-	4,085
Total welfare	-	7,000	1,898	-	5,102
Culture and recreation:					
Parks and recreation	-	21,690	17,979	-	3,711
Library	-	176,850	176,851	-	(1)
Patriotic purposes	-	600	-	-	600
Total culture and recreation	-	199,140	194,830	-	4,310
Conservation	-	8,000	3,353	-	4,647

(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, 2014

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Debt service:					
Principal of long-term debt	-	180,000	180,000	-	-
Interest on long-term debt	-	69,920	65,718	-	4,202
Interest on tax anticipation notes	-	1,000	-	-	1,000
Total debt service	-	250,920	245,718	-	5,202
Capital outlay	19,410	31,500	26,129	24,380	401
Other financing uses:					
Transfers out	-	304,500	309,148	-	(4,648)
Total appropriations, expenditures, other financing uses, and encumbrances	\$ 19,960	\$ 2,805,150	\$ 2,633,586	\$ 50,624	\$ 140,900

SCHEDULE 3
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance
For the Fiscal Year Ended December 31, 2014

Unassigned fund balance, beginning (Non-GAAP Budgetary Basis)		\$ 602,692
Changes:		
Unassigned fund balance used to reduce 2014 tax rate		(250,000)
2014 Budget summary:		
Revenue surplus (Schedule 1)	\$ 148,884	
Unexpended balance of appropriations (Schedule 2)	<u>140,900</u>	
2014 Budget surplus		289,784
Unassigned fund balance, ending (Non-GAAP Budgetary Basis)		642,476
Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis:		
To comply with generally accepted accounting principles by deferring property taxes not collected within 60 days of fiscal year-end		(60,765)
Elimination of the allowance for uncollectible taxes		<u>61,343</u>
Unassigned fund balance, ending (GAAP basis Exhibit C-1)		<u><u>\$ 643,054</u></u>

SCHEDULE 4
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2014

	Special Revenue Funds						
	Fire						
	Conservation Commission	Department Vehicle	Recreation	Fire Detail	Police Detail	All Other	Permanent Fund
							Total
ASSETS							
Investments	\$ 329,995	\$ 262,536	\$ 33,701	\$ 8,814	\$ 42,852	\$ 3,679	\$ 826,546
Receivables, net of allowance for uncollectable:							
Taxes	2,044	-	-	-	-	-	2,044
Accounts	-	34,690	-	-	810	-	35,500
Interfund receivable	4,648	-	-	-	-	-	4,648
Total assets	\$ 336,687	\$ 297,226	\$ 33,701	\$ 8,814	\$ 43,662	\$ 3,679	\$ 868,738
LIABILITIES AND FUND BALANCES							
Liabilities:							
Interfund payable	\$ -	\$ 7,186	\$ -	\$ -	\$ 120	\$ -	\$ 7,306
Fund balances:							
Nonspendable	-	-	-	-	-	-	108,123
Restricted	-	-	-	-	-	-	36,846
Committed	336,687	290,040	33,701	8,814	43,542	-	712,784
Assigned	-	-	-	-	-	3,679	3,679
Total fund balances	336,687	290,040	33,701	8,814	43,542	3,679	861,432
Total liabilities and fund balances	\$ 336,687	\$ 297,226	\$ 33,701	\$ 8,814	\$ 43,662	\$ 3,679	\$ 868,738

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, 2014

	Special Revenue Funds						
	Fire		Fire		Police		Total
	Conservation	Department	Recreation	Detail	Detail	All	Permanent
	Commission	Vehicle				Other	Fund
Revenues:							
Charges for services	\$ -	\$ 61,446	\$ 18,658	\$ 3,698	\$ 38,596	\$ -	\$ -
Miscellaneous	1,022	43	5	2	11	3,900	11,201
Total revenues	1,022	61,489	18,663	3,700	38,607	3,900	11,201
							\$ 122,398
							16,184
							138,582
Expenditures:							
Current:							
Public safety	-	1,056	-	1,360	35,028	-	-
Culture and recreation	-	-	16,996	-	-	5,024	-
Total expenditures	-	1,056	16,996	1,360	35,028	5,024	-
							37,444
							22,020
							59,464
Excess (deficiency) of revenues over (under) expenditures	1,022	60,433	1,667	2,340	3,579	(1,124)	11,201
							79,118
Other financing sources (uses):							
Transfers in	4,648	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(3,500)
Total other financing sources (uses)	4,648	-	-	-	-	-	(3,500)
							1,148
Net change in fund balances	5,670	60,433	1,667	2,340	3,579	(1,124)	7,701
Fund balances, beginning	331,017	229,607	32,034	6,474	39,963	4,803	137,268
Fund balances, ending	\$ 336,687	\$ 290,040	\$ 33,701	\$ 8,814	\$ 43,542	\$ 3,679	\$ 144,969
							\$ 80,266
							781,166
							\$ 861,432



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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INDEPENDENT AUDITOR'S COMMUNICATION 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, major fund, and aggregate remaining fund information of the Town of Hampton Falls as of and for the year ended December 31, 2014, 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 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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:

Cash Reconciliations

During review of the internal control procedures related to cash it was determined that differences between the Treasurer's cash balance and the general ledger identified during the reconciliation process are not being properly followed up on. In order to complete the reconciliation of the cash balances between the Treasurer's records and the general ledger any variances noted should be properly investigated and resolved. We recommend that the variances noted during the reconciliation be reviewed to determine the cause and any potential action be taken to remedy the differences.

Reconciliation of Taxes

Review of the property taxes revealed that the reporting per the tax software is not being reconciled to the general ledger. The tax records must be reconciled with the general ledger on a monthly basis for accurate reporting of the Town's activity. There is a definite need for improvement in this major area of Town revenue.

Town of Hampton Falls
Independent Auditor's Communication of Significant Deficiencies

General Ledger Maintenance

During our testing of the general ledger accounts (specifically the balance sheet) it was determined that accounts are not being properly reconciled and maintained. Key accounting tasks such as monthly reconciliations play a key role in proving the accuracy of accounting data and information included in interim financial statements. The various other "funds" and accounts are not at all times aware of what is owed to and/or from the general fund. We recommend that the Town establish more effective review and reconciliation policies and procedures as a customary part of the accounting process. Particular attention be given to property tax receivables, cash and interfund receivables and payable accounts.

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.

April 28, 2015

Plodzik & Sanderson
Professional Association