

**TOWN OF HAMPTON FALLS,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2015**

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
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DECEMBER 31, 2015

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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, 2015, 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 Town'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 Town'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 18 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, 2015, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

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, 2015, 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

As discussed in Note 1-P to the financial statements, in 2015 the Town changed its method of accounting for pension reporting with the adoption of Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and as amended by Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinions are not modified with respect to these matters.

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.

Requires Supplementary Information – Accounting principles generally accepted in the United States of America require that the Schedule of Town's Proportionate Share of Net Pension Liability (page 28) and the Schedule of Town Contributions (page 29) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers them to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information - Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hampton Falls' basic financial statements. The combining and individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

May 25, 2016

Plodzik & Sanderson
Professional Association

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Statement of Net Position
December 31, 2015

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 3,660,565
Investments	1,376,471
Taxes receivable (net)	395,898
Accounts receivable (net)	234,323
Total assets	<u>5,667,257</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	<u>40,512</u>
LIABILITIES	
Accounts payable	67,770
Accrued interest payable	19,590
Intergovernmental payable	2,907,603
Long-term liabilities:	
Due within one year	122,000
Due in more than one year	1,106,432
Net pension liability	993,773
Total liabilities	<u>5,217,168</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - Property taxes	6,717
Unavailable revenue - Donations	610
Related to pensions	132,006
Total deferred inflows of resources	<u>139,333</u>
NET POSITION	
Net investment in capital assets	(1,204,000)
Restricted	140,686
Unrestricted	1,414,582
Total net position	<u><u>\$ 351,268</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, 2015

		Program Revenues		Net (Expense)
		Charges	Operating	Revenue and
		for	Grants and	Change In
	Expenses	Services	Contributions	Net Position
General government	\$ 657,690	\$ 1,905	\$ 56,694	\$ (599,091)
Public safety	911,986	69,867	-	(842,119)
Highways and streets	468,885	17,755	13,725	(437,405)
Sanitation	216,120	3,893	-	(212,227)
Health	36,503	-	-	(36,503)
Welfare	1,920	-	-	(1,920)
Culture and recreation	223,567	15,802	-	(207,765)
Conservation	1,187	-	-	(1,187)
Interest on long-term debt	53,396	-	-	(53,396)
Capital outlay	29,019	-	-	(29,019)
Total governmental activities	<u>\$ 2,600,273</u>	<u>\$ 109,222</u>	<u>\$ 70,419</u>	<u>(2,420,632)</u>
General revenues:				
Taxes:				
Property				1,875,541
Other				166,753
Motor vehicle permit fees				662,902
Licenses and other fees				43,343
Grants and contributions not restricted to specific programs				107,767
Unrestricted investment earnings				19,846
Miscellaneous				57,836
Total general revenues				<u>2,933,988</u>
Change in net position				513,356
Net position, beginning, as restated (see Note 16)				(162,088)
Net position, ending				<u>\$ 351,268</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, 2015

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,445,262	\$ -	\$ 3,445,262
Investments	-	866,747	866,747
Receivables, net of allowance for uncollectible:			
Taxes	420,898	-	420,898
Accounts	179,852	54,471	234,323
Interfund receivable	1,751	6,229	7,980
Restricted assets:			
Cash and cash equivalents	215,303	-	215,303
Investments	509,724	-	509,724
Total assets	<u>\$ 4,772,790</u>	<u>\$ 927,447</u>	<u>\$ 5,700,237</u>
LIABILITIES			
Accounts payable	\$ 67,770	\$ -	\$ 67,770
Due to other governments	2,907,603	-	2,907,603
Interfund payable	6,229	1,751	7,980
Total liabilities	<u>2,981,602</u>	<u>1,751</u>	<u>2,983,353</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - Property taxes	50,868	-	50,868
Unavailable revenue - Donations	610	-	610
Total deferred inflows of resources	<u>51,478</u>	<u>-</u>	<u>51,478</u>
FUND BALANCES			
Nonspendable	-	123,507	123,507
Restricted	221,843	17,179	239,022
Committed	482,366	781,203	1,263,569
Assigned	30,859	3,807	34,666
Unassigned	1,004,642	-	1,004,642
Total fund balances	<u>1,739,710</u>	<u>925,696</u>	<u>2,665,406</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,772,790</u>	<u>\$ 927,447</u>	<u>\$ 5,700,237</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, 2015

Total fund balances of governmental funds (Exhibit C-1)		\$ 2,665,406
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Certain items are not current financial resources in the governmental funds, but instead are reported in the Statement of Net Position.		
Deferred outflows of resources related to pensions	\$ 40,512	
Deferred inflows of resources related to pensions	<u>(132,006)</u>	
		(91,494)
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (7,980)	
Payables	<u>7,980</u>	
		-
Long term revenue (taxes) is not available to pay current-period expenditures and therefore, is deferred in the governmental funds.		44,151
Allowance for uncollectible property taxes that is recognized on a full accrual basis, but not on the modified accrual basis.		(25,000)
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(19,590)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bond	\$ (1,200,000)	
Capital leases	(4,000)	
Compensated absences	(24,432)	
Net pension liability	<u>(993,773)</u>	
		<u>(2,222,205)</u>
Net position of governmental activities (Exhibit A)		<u>\$ 351,268</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, 2015

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 2,022,565	\$ -	\$ 2,022,565
Licenses and permits	644,284	-	644,284
Intergovernmental	240,147	-	240,147
Charges for services	6,623	102,599	109,222
Miscellaneous	74,347	3,335	77,682
Total revenues	<u>2,987,966</u>	<u>105,934</u>	<u>3,093,900</u>
EXPENDITURES			
Current:			
General government	696,140	-	696,140
Public safety	880,973	24,727	905,700
Highways and streets	468,885	-	468,885
Sanitation	216,120	-	216,120
Health	36,503	-	36,503
Welfare	1,920	-	1,920
Culture and recreation	207,430	19,156	226,586
Conservation	771	416	1,187
Debt service:			
Principal	180,000	-	180,000
Interest	56,718	-	56,718
Capital outlay	29,019	-	29,019
Total expenditures	<u>2,774,479</u>	<u>44,299</u>	<u>2,818,778</u>
Excess of revenues over expenditures	<u>213,487</u>	<u>61,635</u>	<u>275,122</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	3,600	6,229	9,829
Transfers out	(6,229)	(3,600)	(9,829)
Capital leases	6,000	-	6,000
Total other financing sources (uses)	<u>3,371</u>	<u>2,629</u>	<u>6,000</u>
Net change in fund balances	216,858	64,264	281,122
Fund balances, beginning, as restated (see Note 16)	1,522,852	861,432	2,384,284
Fund balances, ending	<u>\$ 1,739,710</u>	<u>\$ 925,696</u>	<u>\$ 2,665,406</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, 2015

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 281,122
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	\$ (9,829)	
Transfers out	<u>9,829</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	\$ (16,614)	
Change in allowance for uncollectible property taxes	<u>36,343</u>	
		19,729
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expenses.		37,396
The repayment of principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net position.		
Proceeds of capital leases	\$ (6,000)	
Repayment of bond principal	180,000	
Repayment of capital leases	<u>2,000</u>	
		176,000
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	
Increase in compensated absences payable	<u>(4,213)</u>	
		(891)
Changes in net position of governmental activities (Exhibit B)		<u><u>\$ 513,356</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, 2015

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Taxes	\$ 1,978,560	\$ 2,042,294	\$ 63,734
Licenses and permits	628,000	644,284	16,284
Intergovernmental	174,130	240,147	66,017
Charges for services	3,200	6,623	3,423
Miscellaneous	17,960	51,987	34,027
Total revenues	2,801,850	2,985,335	183,485
EXPENDITURES			
Current:			
General government	792,775	690,140	102,635
Public safety	762,625	694,599	68,026
Highways and streets	290,400	302,057	(11,657)
Sanitation	231,625	216,120	15,505
Health	28,335	36,503	(8,168)
Welfare	7,000	1,920	5,080
Culture and recreation	204,670	202,954	1,716
Conservation	7,000	771	6,229
Debt service:			
Principal	180,000	180,000	-
Interest	61,920	56,718	5,202
Capital outlay	38,500	35,498	3,002
Total expenditures	2,604,850	2,417,280	187,570
Excess of revenues over expenditures	197,000	568,055	371,055
OTHER FINANCING SOURCES (USES)			
Transfers in	9,000	9,350	350
Transfers out	(326,000)	(333,229)	(7,229)
Total other financing sources (uses)	(317,000)	(323,879)	(6,879)
Net change in fund balances	\$ (120,000)	244,176	\$ 364,176
Unassigned fund balance, beginning, as restated (see Note 16)		779,617	
Unassigned fund balance, ending		\$ 1,023,793	

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 Net Position
December 31, 2015

	Private Purpose Trust	Agency
ASSETS		
Investments	\$ 179,852	\$ 230,523
LIABILITIES		
Accounts payable	179,852	-
Due to other governmental units	-	122,383
Due to others	-	108,140
Total liabilities	179,852	230,523
NET POSITION		
Held in trust for specific purposes	\$ -	\$ -

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 Net Position
For the Fiscal Year Ended December 31, 2015

	Private Purpose Trust
ADDITIONS	
Interest	\$ 5,172
Change in fair market value	<u>(2,740)</u>
Total revenue	2,432
DEDUCTIONS	
Scholarships	<u>12,000</u>
Change in net position	(9,568)
Net position, beginning, as restated (see Note 16)	<u>9,568</u>
Net position, ending	<u><u>\$ -</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, 2015

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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, 2015

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. In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by the GASB. The Town has no component units to include in its 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 are 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 funds 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.

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

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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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 reported amounts of assets, deferred inflows/outflows, and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 – 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. 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."

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.

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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 Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then.

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.

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. Warrants for the year were issued on May 20, 2015 and November 4, 2015, and due on July 1, 2015 and December 8, 2015. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

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

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The Town net assessed valuation as of April 1, 2015 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 410,205,300
For all other taxes	\$ 416,105,775

The tax rates and amounts assessed for the year ended December 31, 2015 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$4.56	\$ 1,895,277
School portion:		
State of New Hampshire	\$2.45	1,006,265
Local	\$14.12	5,876,073
County portion	\$1.09	453,799
Total		<u>\$ 9,231,414</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.

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, notes, 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.

1-P Defined Benefit Pension Plan

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* requires participating employers to recognize their proportionate share of collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, and schedules have been prepared to provide employers with their calculated proportionate share of these amounts. The collective amounts have been allocated based on employer contributions during the respective fiscal years. Contributions from employers are recognized when legally due, based on statutory requirements.

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The schedules prepared by New Hampshire Retirement System, and audited by the plan's independent auditors, require management to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature and uncertainty of these estimates, actual results could differ, and the differences may be material.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Town's operations. At its annual meeting, the Town adopts a budget for the current year for the general fund. Except as reconciled below, the budget was adopted on a basis consistent with US generally accepted accounting principles.

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

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

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. For the fiscal year 2015, \$120,000 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)	\$ 2,994,685
Adjustment:	
Basis difference:	
Inception of capital leases	6,000
GASB Statement No. 54:	
To record miscellaneous income of the blended funds	22,360
To eliminate transfers between blended funds	(5,750)
Change in deferred tax revenue relating to 60-day revenue recognition	16,614
Change in allowance for uncollectible property taxes	(36,343)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,997,566</u>
	<i>(Continued)</i>

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Budgetary reconciliation to GAAP basis continued:

Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 2,750,509
Adjustment:	
Basis differences:	
Encumbrances, beginning	50,624
Encumbrances, ending	(30,859)
Inception of capital leases	6,000
GASB Statement No. 54:	
To record expenditures of the blended funds during the year	331,434
To eliminate transfers between general and expendable trust funds	(327,000)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,780,708</u>

2-C Change in Accounting Principle

Effective July 1, 2014, the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The requirements of this Statement change the way the Town calculates and reports the costs and obligations associated with pensions. As a result of implementing GASB Statement No. 68 the Town has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of January 1, 2015 by \$1,122,663 (see Note 16). The reduction accounts for the associated net position liability, deferred inflows of resources, and deferred outflows of resources related to pensions.

Also, the Town adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. This Statement addresses and issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employer and nonemployer contributing entities.

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 \$3,660,565 and the bank balances totaled \$3,665,359. Petty cash totaled \$65.

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 intermediate maturity investments.

At December 31, 2015, this Town had the following investments:

	<u>Fair Value</u>
Investments type:	
New Hampshire Public Deposit Investment Pool	\$ 511,463
Mutual funds	951,404
Certificates of deposit	323,979
Total fair value	<u>\$ 1,786,846</u>

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Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 1,376,471
Investments per Statement of Net Position-Fiduciary Funds (Exhibit E-1)	410,375
Total investments	<u>\$ 1,786,846</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>\$ 215,303</u>
Investments:	
Expendable trust funds	508,484
Heritage fund	<u>1,240</u>
Total investments	<u>509,724</u>
Total restricted assets	<u>\$ 725,027</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, 2015. The amount has been reduced by an allowance for an estimated uncollectible amount of \$25,000. Taxes receivable by year are as follows:

	As reported on:	
	Exhibit A	Exhibit C-1
Property:		
Levy of 2015	\$ 350,828	\$ 350,828
Unredeemed (under tax lien):		
Levy of 2014	48,378	48,378
Levy of 2013	21,217	21,217
Levy of 2012	475	475
Less: allowance for estimated uncollectible taxes	(25,000)	-
Net taxes receivable	<u>\$ 395,898</u>	<u>\$ 420,898</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).

NOTE 7 – OTHER RECEIVABLES

Receivables at December 31, 2015, 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, 2015 for the Town's individual major fund and nonmajor funds in the aggregate including applicable allowances for uncollectible accounts are as follows:

	General Fund	Nonmajor Funds
Receivables:		
Accounts	\$ 179,852	\$ 77,428
Less: allowance for uncollectibles	-	(22,957)
Net total receivables	<u>\$ 179,852</u>	<u>\$ 54,471</u>

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NOTE 8 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2015 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor	\$ 1,751
Nonmajor	General	6,229
		<u>\$ 7,980</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, 2015 is as follows:

	Transfers In:		
	General Fund	Nonmajor Fund	Total
Transfers out:			
General fund	\$ -	\$ 6,229	\$ 6,229
Nonmajor fund	3,600	-	3,600
Total	<u>\$ 3,600</u>	<u>\$ 6,229</u>	<u>\$ 9,829</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 \$3,029,986 at December 31, 2015 consist of the following:

General fund:	
Balance of the 2015-2016 school district assessment due to:	
Hampton Falls School District	\$ 2,422,044
Winnacunnet Cooperative School District	485,559
Total general fund	<u>2,907,603</u>
Agency fund:	
Balance of expendable trust funds due to the Hampton Falls School District	<u>122,383</u>
Total intergovernmental payables due	<u>\$ 3,029,986</u>

NOTE 10 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows and inflows of resources of \$40,512 and \$132,006 respectively in the government wide financial statements at December 31, 2015 consists of deferred amounts related to pensions. See Note 17 for more information on pension related deferrals.

Deferred inflows of resources reported in the governmental funds as unavailable revenue are as follows:

	General Fund
Property taxes not collected within 60 days of year-end	\$ 44,151
Property taxes received in advance of assessments	6,717
Private donations collected in advance of eligible expenditure being made	610
Total deferred inflows of resources	<u>\$ 51,478</u>

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NOTE 11 – CAPITAL LEASE OBLIGATIONS

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

	Standard Interest Rate	Present Value of Remaining Payments as of December 31, 2015
Capital lease obligations:		
BMSI software	18.00%	\$ 4,000

The annual requirements to amortize the capital lease payable as of December 31, 2015, including interest payments, are as follows:

Fiscal Year Ending December 31,	Governmental Activities
2016	\$ 2,630
2017	2,630
Total requirements	5,260
Less: interest	(1,260)
Present value of remaining payments	\$ 4,000

NOTE 12 – LONG-TERM LIABILITIES

Changes in the Town's long-term liabilities consisted of the following for the year ended December 31, 2015:

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015	Due Within One Year
General obligation bond payable	\$ 1,380,000	\$ -	\$ (180,000)	\$ 1,200,000	\$ 120,000
Capital leases	-	6,000	(2,000)	4,000	2,000
Compensated absences	20,219	4,213	-	24,432	-
Total long-term liabilities	\$ 1,400,219	\$ 10,213	\$ (182,000)	\$ 1,228,432	\$ 122,000

The long-term bond is comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2015	Current Portion
General obligation bond payable:						
2010 refunding bond	\$ 2,115,000	2010	2025	3.96%	\$ 1,200,000	\$ 120,000

The annual requirements to amortize the general obligation bond outstanding as of December 31, 2015, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
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	120,000	31,200	151,200
2021-2025	600,000	79,170	679,170
Totals	\$ 1,200,000	\$ 285,426	\$ 1,485,426

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NOTE 13 – ENCUMBRANCES

Encumbrances outstanding at December 31, 2015 are as follows:

General fund:	
Capital outlay	<u>\$ 30,859</u>

NOTE 14 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the government-wide Statement of Net Position at December 31, 2015 include the following:

Net investment in capital assets:	
Net property, buildings, and equipment	\$ -
Less:	
General obligation bond payable	(1,200,000)
Capital lease payable	(4,000)
Total net investment in capital assets	<u>(1,204,000)</u>
Restricted for perpetual care:	
Expendable	17,179
Nonexpendable	123,507
Total restricted net position	<u>140,686</u>
Unrestricted	1,414,582
Total net position	<u>\$ 351,268</u>

NOTE 15 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2015 include the following:

	General Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable:			
Permanent fund - principal balance	\$ -	\$ 123,507	\$ 123,507
Restricted:			
Library	221,843	-	221,843
Permanent fund - income balance	-	17,179	17,179
Total restricted fund balance	<u>221,843</u>	<u>17,179</u>	<u>239,022</u>
Committed:			
Expendable trust	481,126	-	481,126
Heritage fund	1,240	-	1,240
Conservation commission	-	343,492	343,492
Fire department vehicle	-	355,142	355,142
Recreation	-	32,239	32,239
Fire detail	-	9,306	9,306
Police detail	-	41,024	41,024
Total committed fund balance	<u>482,366</u>	<u>781,203</u>	<u>1,263,569</u>
Assigned:			
Encumbrances	30,859	-	30,859
All other	-	3,807	3,807
Total assigned fund balance	<u>30,859</u>	<u>3,807</u>	<u>34,666</u>
Unassigned	<u>1,004,642</u>	<u>-</u>	<u>1,004,642</u>
Total governmental fund balances	<u>\$ 1,739,710</u>	<u>\$ 925,696</u>	<u>\$ 2,665,406</u>

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NOTE 16 – PRIOR PERIOD ADJUSTMENTS

Net position/fund balance at January 1, 2015 was restated to give retroactive effect to the following prior period adjustments:

	Government-wide Statements	General Fund (Budgetary Basis)	General Fund (GAAP Basis)	Private Purpose Trust
To adjust for:				
Cable franchise fees incorrectly record in private purpose trust	\$ 149,141	\$ 149,141	\$ 149,141	\$ (149,141)
Scholarships due in prior period	(12,000)	(12,000)	(12,000)	-
To record the beginning:				
Deferred inflows of resources for implementation of GASB Statements Nos. 68 and 71	(173,522)	-	-	-
Deferred outflows of resources for implementation of GASB Statements Nos. 68 and 71	43,904	-	-	-
Net pension liability for implementation of GASB Statements Nos. 68 and 71	(993,045)	-	-	-
Net position/fund balance, as previously reported	823,434	642,476	1,385,711	158,709
Net position/fund balance, as restated	<u>\$ (162,088)</u>	<u>\$ 779,617</u>	<u>\$ 1,522,852</u>	<u>\$ 9,568</u>

NOTE 17 – DEFINED BENEFIT PENSION PLAN

Plan Description: The New Hampshire Retirement System (NHRS or the System) is a public employee retirement system that administers one cost-sharing multiple-employer defined benefit pension plan (Pension Plan), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The Pension Plan was 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 Pension Plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers with in the State are eligible and required to participate in the Pension Plan. The System issues a publically available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

Benefits Provided: The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and available to pay retirement benefits to all members.

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is 1/60 or 1.667% of average final compensation (AFC) multiplied by years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have nonvested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the member attains 52.5 years of age by ¼ of 1% or age 60.

Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances, subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2015

Contributions: 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. All employees are required to contribute 7% of earnable compensation. For fiscal year 2015, the Town contributed 25.30% for police officers and 10.77% for other employees. The contribution requirements for the fiscal years 2013, 2014, and 2015 were \$88,869, \$97,365, and \$87,384, respectively, which were paid in full in each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2015 the Town reported a liability of \$993,773 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2015, the Town's proportion was 0.02508561% which was a decrease of 0.00137028% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Town recognized pension expense of \$37,396. At December 31, 2015 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ -	\$ 83,639
Differences between expected and actual experience	-	21,807
Net difference between projected and actual investment earnings on pension plan investments	-	26,560
Contributions subsequent to the measurement date	40,512	-
Total	<u>\$ 40,512</u>	<u>\$ 132,006</u>

The \$40,512 reported as deferred outflows of resources related to pensions results from the Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending December 31.	
2016	\$ (39,971)
2017	(39,971)
2018	(39,971)
2019	(5,897)
2020	(6,196)
Totals	<u>\$ (132,006)</u>

Actuarial Assumptions: The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2015, using the following actuarial assumptions which, accordingly apply to both 2014 and 2015 measurements:

Inflation:	3.0%
Salary increases:	3.75- 5.8% average, including inflation
Investment rate of return:	7.75% net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2005 – December 31, 2010.

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2015

Long-term Rates of Return: The long-term expected rate of return on pension plan investment was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. Following is a table presenting target allocations and long-term rates of return for 2015:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return 2015
Large Cap Equities	22.50%	3.00%
Small/Mid Cap Equities	7.50%	3.00%
Total domestic equity	30.00%	
Int'l Equities (unhedged)	13.00%	4.00%
Emerging Int'l Equities	7.00%	6.00%
Total international equity	20.00%	
Core Bonds	4.50%	(0.70%)
Short Duration	2.50%	(1.00%)
Global Multi-Sector Fixed Income	11.00%	0.28%
Unconstrained Fixed Income	7.00%	0.16%
Total fixed income	25.00%	
Private equity	5.00%	5.50%
Private debt	5.00%	4.50%
Real estate	10.00%	3.50%
Opportunistic	5.00%	2.75%
Total alternative investments	25.00%	
Total	100.00%	

Discount Rate: The discount rate used to measure the collective total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the Pension Plan's actuarial funding policy as required by RSA 100-A:16. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on Pension Plan investment was applied to all periods of projected benefit payments to determine the collective total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following table presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.75% as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

Actuarial Valuation Date	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
June 30, 2013	\$ 1,532,205	\$ 1,195,148	\$ 911,820
June 30, 2014	\$ 1,309,001	\$ 993,045	\$ 727,331
June 30, 2015	\$ 1,308,173	\$ 993,773	\$ 725,745

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separated issued New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit Pension Plan financial report.

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2015

NOTE 18 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Town provides postemployment benefit options for health care to eligible retirees, terminated employees, and their dependents in accordance with the provisions of various employment contracts. The benefit levels, employee contributions, and employer contributions are governed by the Town's contractual agreements. Expenses for the cost of providing health insurance for currently enrolled retirees are recognized in general fund of the funds financial statements as payments are made.

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, 2015 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 19 – 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 2015, 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, 2015 to December 31, 2015 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, 2015 was \$22,338 for workers' compensation and \$30,129 for property/liability.

NOTE 20 – 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 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 25, 2016, the date the December 31, 2015 financial statements were available to be issued, and no events occurred that require recognition or disclosure.

EXHIBIT F
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Schedule of the Town's Proportionate Share of Net Pension Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2015

Fiscal Year End	Valuation Date	Town's Proportion of Net Pension Liability	Proportionate Share of Net Pension Liability	Covered Payroll	Town Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
December 31, 2015	June 30, 2015	0.02508561%	\$ 993,773	\$ 433,675	229.15%	65.47%
December 31, 2014	June 30, 2014	0.02645589%	\$ 993,045	\$ 450,362	220.50%	66.32%
December 31, 2013	June 30, 2013	0.02776970%	\$ 1,195,148	\$ 507,692	235.41%	59.81%

The note to the required supplementary information is an integral part of this schedule.

EXHIBIT G
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Schedule of Town Contributions
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2015

Fiscal Year End	Valuation Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2015	June 30, 2015	\$ 84,159	\$ 84,159	\$ -	\$ 433,675	19.41%
December 31, 2014	June 30, 2014	\$ 85,829	\$ 85,829	\$ -	\$ 450,362	19.06%
December 31, 2013	June 30, 2013	\$ 69,050	\$ 69,050	\$ -	\$ 507,692	13.60%

The note to the required supplementary information is an integral part of this schedule.

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2015

Schedule of the Town's Proportionate Share of Net Pension Liability & Schedule of Town Contributions

As required by GASB Statement No. 68, and as amended by GASB Statement No. 71, Exhibits F and G represent the actuarial determined costs associated with the Town's pension plan at December 31, 2015.

Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2015:

Actuarial Cost Method-	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	25 Years beginning July 1, 2014
Asset Valuation Method	5-Year smooth market for funding purposes
Price Inflation	3.0% per year
Wage Inflation	3.75% per year
Salary Increases	5.8% Average, including inflation
Municipal Bond Rate	4.29% per year
Investment Rate of Return	7.75% per year
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2011 valuation pursuant to an experience study of the period 2005-2010.
Mortality	RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

Other Information:

Notes	Contribution rates for Fiscal Year 2014 were determined based on the benefit changes adopted under House Bill No. 2 as amended by 011-2513-CofC.
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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, 2015

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 1,913,210	\$ 1,875,541	\$ (37,669)
Yield	350	385	35
Payment in lieu of taxes	15,000	15,000	-
Interest and penalties on taxes	50,000	151,368	101,368
Total from taxes	1,978,560	2,042,294	63,734
Licenses, permits, and fees:			
Business licenses, permits, and fees	2,000	3,870	1,870
Motor vehicle permit fees	600,000	600,941	941
Building permits	16,000	20,140	4,140
Other	10,000	19,333	9,333
Total from licenses, permits, and fees	628,000	644,284	16,284
Intergovernmental:			
State:			
Meals and rooms distribution	107,767	107,767	-
Highway block grant	64,238	75,686	11,448
Other	2,125	2,125	-
Federal:			
FEMA	-	54,569	54,569
Total from intergovernmental	174,130	240,147	66,017
Charges for services:			
Income from departments	3,200	6,623	3,423
Miscellaneous:			
Interest on investments	3,000	3,942	942
Rent of property	-	500	500
Other	14,960	47,545	32,585
Total from miscellaneous	17,960	51,987	34,027
Other financing sources:			
Transfers in	9,000	9,350	350
Total revenues and other financing sources	2,810,850	\$ 2,994,685	\$ 183,835
Unassigned fund balance used to reduce tax rate	120,000		
Total revenues, other financing sources, and use of fund balance	\$ 2,930,850		

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, 2015

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 104,850	\$ 96,382	\$ -	\$ 8,468
Election and registration	-	70,045	60,557	-	9,488
Financial administration	-	110,855	96,528	-	14,327
Legal	-	15,500	15,768	-	(268)
Personnel administration	-	309,300	259,371	-	49,929
Planning and zoning	-	64,350	62,926	-	1,424
General government buildings	-	57,250	47,880	-	9,370
Cemeteries	-	14,625	10,599	-	4,026
Insurance, not otherwise allocated	-	32,000	30,129	-	1,871
Other	-	14,000	10,000	-	4,000
Total general government	-	792,775	690,140	-	102,635
Public safety:					
Police	13,808	458,800	426,093	-	46,515
Ambulance	-	81,550	79,099	-	2,451
Fire	7,106	181,100	179,581	-	8,625
Building inspection	-	31,175	28,335	-	2,840
Emergency management	5,330	10,000	7,735	-	7,595
Total public safety	26,244	762,625	720,843	-	68,026
Highways and streets:					
Highways and streets	-	284,700	298,052	-	(13,352)
Street lighting	-	5,700	4,005	-	1,695
Total highways and streets	-	290,400	302,057	-	(11,657)
Sanitation:					
Solid waste collection	-	153,700	162,992	-	(9,292)
Solid waste disposal	-	77,925	53,128	-	24,797
Total sanitation	-	231,625	216,120	-	15,505
Health:					
Administration	-	4,590	9,556	-	(4,966)
Pest control	-	2,670	5,872	-	(3,202)
Health agencies	-	21,075	21,075	-	-
Total health	-	28,335	36,503	-	(8,168)
Welfare:					
Administration	-	2,850	1,500	-	1,350
Direct assistance	-	4,150	420	-	3,730
Total welfare	-	7,000	1,920	-	5,080
Culture and recreation:					
Parks and recreation	-	21,045	20,423	-	622
Library	-	181,025	181,027	-	(2)
Patriotic purposes	-	600	504	-	96
Other	-	2,000	1,000	-	1,000
Total culture and recreation	-	204,670	202,954	-	1,716
Conservation	-	7,000	771	-	6,229

(Continued)

SCHEDULE 4
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2015

	Special Revenue Funds						
	Conservation Commission	Fire Department Vehicle	Recreation	Fire Detail	Police Detail	All Other	Permanent Fund
ASSETS							
Investments	\$ 337,263	\$ 302,630	\$ 32,239	\$ 9,306	\$ 40,816	\$ 3,807	\$ 140,686
Receivables, net of allowance for uncollectable:							\$ 866,747
Accounts	-	53,463	-	-	1,008	-	-
Interfund receivable	6,229	-	-	-	-	-	-
Total assets	\$ 343,492	\$ 356,093	\$ 32,239	\$ 9,306	\$ 41,824	\$ 3,807	\$ 140,686
							\$ 927,447
LIABILITIES AND FUND BALANCES							
Liabilities:							
Interfund payable	\$ -	\$ 951	\$ -	\$ -	\$ 800	\$ -	\$ -
							\$ 1,751
Fund balances:							
Nonspendable	-	-	-	-	-	-	123,507
Restricted	-	-	-	-	-	-	17,179
Committed	343,492	355,142	32,239	9,306	41,024	-	-
Assigned	-	-	-	-	-	3,807	-
Total fund balances	343,492	355,142	32,239	9,306	41,024	3,807	-
Total liabilities and fund balances	\$ 343,492	\$ 356,093	\$ 32,239	\$ 9,306	\$ 41,824	\$ 3,807	\$ 140,686
							\$ 927,447

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, 2015

	Special Revenue Funds						
	Conservation Commission	Fire Department Vehicle	Recreation	Fire Detail	Police Detail	All Other	Permanent Fund
Revenues:							
Charges for services	\$ -	\$ 69,792	\$ 15,052	\$ 1,026	\$ 16,729	\$ -	\$ -
Miscellaneous	992	216	20	6	34	253	1,814
Total revenues	992	70,008	15,072	1,032	16,763	253	1,814
Expenditures:							
Current:							
Public safety	-	4,906	-	540	19,281	-	-
Culture and recreation	-	-	16,534	-	-	125	2,497
Conservation	416	-	-	-	-	-	-
Total expenditures	416	4,906	16,534	540	19,281	125	2,497
Excess (deficiency) of revenues over (under) expenditures	576	65,102	(1,462)	492	(2,518)	128	(683)
Other financing sources (uses):							
Transfers in	6,229	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(3,600)
Total other financing sources (uses)	6,229	-	-	-	-	-	(3,600)
Net change in fund balances	6,805	65,102	(1,462)	492	(2,518)	128	(4,283)
Fund balances, beginning	336,687	290,040	33,701	8,814	43,542	3,679	144,969
Fund balances, ending	\$ 343,492	\$ 355,142	\$ 32,239	\$ 9,306	\$ 41,024	\$ 3,807	\$ 140,686
							\$ 925,696



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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INDEPENDENT AUDITOR'S COMMUNICATION OF MATERIAL WEAKNESSES

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, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Hampton Falls' internal control over financial reporting as a basis for designing audit procedures that are appropriate in circumstances 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'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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 correct, on a timely basis. We consider the following deficiencies in the Town of Hampton Falls' internal control to be material weaknesses:

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. This is a repeat recommendation.

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 should 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, Board of Selectmen, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

May 25, 2016

*Plodzik & Sanderson
Professional Association*