

**TOWN OF HAMPTON FALLS,  
NEW HAMPSHIRE**

**ANNUAL FINANCIAL REPORT**

**AS OF AND FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2016**

**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
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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

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, 2016, 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 from 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 audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and aggregate remaining fund information of the Town of Hampton Falls, as of December 31, 2016, 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.

*Town of Hampton Falls*  
*Independent Auditor's Report*

**Required Supplementary Information** - Accounting principles generally accepted in the United States of America require that, the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 32), the Schedule of Town's Proportionate Share of Net Pension Liability (page 33), and the Schedule of Town Contributions (page 34) 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 it 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 schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund 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 schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Plodzik & Sanderson*  
*Professional Association*

July 17, 2017

## ***BASIC FINANCIAL STATEMENTS***

**EXHIBIT A**  
**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
**Statement of Net Position**  
**December 31, 2016**

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,693,622
Investments	1,346,840
Taxes receivable (net)	411,167
Accounts receivable (net)	37,557
Capital assets:	
Land and construction in progress	4,697,036
Other capital assets, net of depreciation	3,986,914
Total assets	<u>14,173,136</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions	<u>185,201</u>
<b>LIABILITIES</b>	
Accounts payable	33,112
Accrued salaries and benefits	1,432
Accrued interest payable	17,375
Intergovernmental payable	2,856,985
Long-term liabilities:	
Due within one year	122,000
Due in more than one year	2,289,347
Total liabilities	<u>5,320,251</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - Donations	610
Related to pensions	234,815
Total deferred inflows of resources	<u>235,425</u>
<b>NET POSITION</b>	
Net investment in capital assets	7,601,950
Restricted	148,407
Unrestricted	1,052,304
Total net position	<u><u>\$ 8,802,661</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, 2016**

		Program Revenues		Net (Expense)
		Charges	Operating	Revenue and
		for	Grants and	Change In
	Expenses	Services	Contributions	Net Position
General government	\$ 949,601	\$ 3,060	\$ 8,825	\$ (937,716)
Public safety	842,710	42,513	4,833	(795,364)
Highways and streets	305,271	47,189	-	(258,082)
Sanitation	210,367	2,469	-	(207,898)
Health	53,843	-	-	(53,843)
Welfare	3,060	-	-	(3,060)
Culture and recreation	184,338	18,413	-	(165,925)
Conservation	8,098	-	-	(8,098)
Interest on long-term debt	45,503	-	-	(45,503)
Total governmental activities	<u>\$ 2,602,791</u>	<u>\$ 113,644</u>	<u>\$ 13,658</u>	<u>(2,475,489)</u>
General revenues:				
Taxes:				
Property				1,568,611
Other				46,864
Motor vehicle permit fees				699,075
Licenses and other fees				71,688
Grants and contributions not restricted to specific programs				115,778
Unrestricted investment earnings				23,959
Miscellaneous				62,511
Total general revenues				<u>2,588,486</u>
Change in net position				112,997
Net position, beginning, as restated (see Note 19)				<u>8,689,664</u>
Net position, ending				<u>\$ 8,802,661</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, 2016**

	General	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,480,198	\$ -	\$ 3,480,198
Investments	11,603	760,072	771,675
Receivables, net of allowance for uncollectible:			
Taxes	436,167	-	436,167
Accounts	396	37,161	37,557
Interfund receivable	7,111	4,448	11,559
Restricted assets:			
Cash and cash equivalents	213,424	-	213,424
Investments	575,165	-	575,165
Total assets	<u>\$ 4,724,064</u>	<u>\$ 801,681</u>	<u>\$ 5,525,745</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 33,112	\$ -	\$ 33,112
Accrued salaries and benefits	1,432	-	1,432
Intergovernmental payable	2,856,985	-	2,856,985
Interfund payable	4,448	7,111	11,559
Total liabilities	<u>2,895,977</u>	<u>7,111</u>	<u>2,903,088</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - Property taxes	52,715	-	52,715
Unavailable revenue - Donations	610	-	610
Total deferred inflows of resources	<u>53,325</u>	<u>-</u>	<u>53,325</u>
<b>FUND BALANCES</b>			
Nonspendable	-	130,551	130,551
Restricted	213,424	17,856	231,280
Committed	567,374	638,632	1,206,006
Assigned	48,274	7,531	55,805
Unassigned	945,690	-	945,690
Total fund balances	<u>1,774,762</u>	<u>794,570</u>	<u>2,569,332</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,724,064</u>	<u>\$ 801,681</u>	<u>\$ 5,525,745</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, 2016**

Total fund balances of governmental funds (Exhibit C-1)		\$ 2,569,332
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.		
Cost	\$ 10,706,926	
Less accumulated depreciation	<u>(2,022,976)</u>	
		8,683,950
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	\$ 185,201	
Deferred inflows of resources related to pensions	<u>(234,815)</u>	
		(49,614)
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (11,559)	
Payables	<u>11,559</u>	
		-
Long term revenue (taxes) is not available to pay current-period expenditures and therefore, is deferred in the governmental funds.		52,715
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		(17,375)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bond	\$ (1,080,000)	
Capital leases	(2,000)	
Compensated absences	(17,191)	
Other postemployment benefits	(65,871)	
Net pension liability	<u>(1,246,285)</u>	
		(2,411,347)
Net position of governmental activities (Exhibit A)		<u><u>\$ 8,802,661</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, 2016**

	General	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 1,606,911	\$ -	\$ 1,606,911
Licenses and permits	703,247	-	703,247
Intergovernmental	196,952	-	196,952
Charges for services	10,163	103,481	113,644
Miscellaneous	65,891	20,579	86,470
Total revenues	<u>2,583,164</u>	<u>124,060</u>	<u>2,707,224</u>
<b>EXPENDITURES</b>			
Current:			
General government	695,655	-	695,655
Public safety	727,163	36,960	764,123
Highways and streets	436,136	-	436,136
Sanitation	212,367	-	212,367
Health	53,843	-	53,843
Welfare	3,060	-	3,060
Culture and recreation	201,540	10,114	211,654
Conservation	2,552	5,546	8,098
Debt service:			
Principal	120,000	-	120,000
Interest	47,718	-	47,718
Capital outlay	250,644	-	250,644
Total expenditures	<u>2,750,678</u>	<u>52,620</u>	<u>2,803,298</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(167,514)</u>	<u>71,440</u>	<u>(96,074)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	207,014	4,448	211,462
Transfers out	(4,448)	(207,014)	(211,462)
Total other financing sources (uses)	<u>202,566</u>	<u>(202,566)</u>	<u>-</u>
Net change in fund balances	35,052	(131,126)	(96,074)
Fund balances, beginning	1,739,710	925,696	2,665,406
Fund balances, ending	<u>\$ 1,774,762</u>	<u>\$ 794,570</u>	<u>\$ 2,569,332</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, 2016**

Net change in fund balances of governmental funds (Exhibit C-3)		\$ (96,074)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.		
Capitalized capital outlay	\$ 480,778	
Depreciation expense	<u>(163,794)</u>	
		316,984
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	\$ (211,462)	
Transfers out	<u>211,462</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		8,564
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.		
Contributions subsequent to the measurement date	\$ 51,669	
Net pension expense	<u>(262,301)</u>	
		(210,632)
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	\$ 120,000	
Repayment of capital leases	<u>2,000</u>	
		122,000
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	\$ 2,215	
Decrease in compensated absences payable	7,241	
Increase in postemployment benefits payable	<u>(37,301)</u>	
		(27,845)
Changes in net position of governmental activities (Exhibit B)		<u>\$ 112,997</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, 2016**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Taxes	\$ 1,583,531	\$ 1,615,475	\$ 31,944
Licenses and permits	686,000	703,247	17,247
Intergovernmental	185,294	196,952	11,658
Charges for services	4,500	10,163	5,663
Miscellaneous	4,600	34,747	30,147
Total revenues	2,463,925	2,560,584	96,659
<b>EXPENDITURES</b>			
Current:			
General government	780,985	698,552	82,433
Public safety	774,805	726,923	47,882
Highways and streets	308,000	182,848	125,152
Sanitation	219,815	212,367	7,448
Health	60,205	53,843	6,362
Welfare	7,000	3,060	3,940
Culture and recreation	193,015	184,804	8,211
Conservation	2,552	2,552	-
Debt service:			
Principal	120,000	120,000	-
Interest	54,100	47,718	6,382
Capital outlay	258,500	256,771	1,729
Total expenditures	2,778,977	2,489,438	289,539
Excess (deficiency) of revenues over (under) expenditures	(315,052)	71,146	386,198
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	234,500	212,914	(21,586)
Transfers out	(334,448)	(334,448)	-
Total other financing sources (uses)	(99,948)	(121,534)	(21,586)
Net change in fund balances	\$ (415,000)	(50,388)	\$ 364,612
Unassigned fund balance, beginning		1,023,793	
Unassigned fund balance, ending		\$ 973,405	

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, 2016**

	Private Purpose Trust	Agency
<b>ASSETS</b>		
Investments	\$ -	\$ 304,746
<b>LIABILITIES</b>		
Intergovernmental payable	-	177,453
Due to others	-	127,293
Total liabilities	-	304,746
<b>NET POSITION</b>	\$ -	\$ -

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, 2016**

	Private Purpose Trust
<b>ADDITIONS</b>	
New funds	\$ 7,979
Interest	2,571
Change in fair market value	13,488
Total revenue	<u>24,038</u>
<b>DEDUCTIONS</b>	
Scholarships	12,038
Intergovernmental transfer	12,000
Total deductions	<u>24,038</u>
Change in net position	-
Net position, beginning	-
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, 2016**

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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, 2016***

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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, 2016**

**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.

In 2016 the Town implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a government should apply.

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***

***Government-wide Financial Statements*** - The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. Generally, the effect of interfund activity has been eliminated from these statements. Governmental activities normally are supported through taxes and intergovernmental revenues.

The *Statement of Net Position* presents the financial position of the Town at year-end. This statement includes all of the Town's non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position.

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 meeting the definition of program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenue rather than program revenue.

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

In the governmental fund financial statements, expenditures are reported by character: current, debt service or capital outlay. Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Debt service includes both interest and principal outlays related to bonds. Capital outlay includes expenditures for equipment, real property, or infrastructure.

***Other Financing Sources (Uses)*** – these additions to and reductions from resources in governmental fund financial statements normally result from transfers from/to other funds. Transfers are reported when incurred as “transfers in” by the receiving fund and as “transfers out” by the disbursing fund.

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

***Measurement Focus and Basis of Accounting*** - 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.

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Governmental fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

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.

**Financial Statement Presentation** - A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to report financial position and the results of operations, to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain government functions or activities.

The Town reports the following major governmental fund:

**General Fund** – is the Town’s primary operating fund. The general fund accounts for all financial resources except those required to be accounted for in another fund. The primary revenue sources include property taxes, State grants and motor vehicle permit fees. The primary expenditures are for general government, public safety, highways and streets, sanitation, culture and recreation, debt service and capital outlay. Under GASB Statement No. 54 guidance the library, heritage, and expendable trust funds are consolidated in the general fund.

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:

**Private Purpose Trust Fund** – are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments.

**Agency Fund** – are custodial in nature and do not involve the measurement of operating results. An agency fund is used to account for assets held on behalf of outside parties, including other governments.

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

The Town considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts.

The treasurer is required to deposit such moneys in solvent banks in state or the Public Deposit Investment Pool pursuant to New Hampshire RSA 383:22. Funds may be deposited in banks outside 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***

Restricted assets occur when statutory limitation is placed on the use of the assets as they are earmarked for a specific purpose and are unavailable for general use.

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***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 are reported at fair value. The Town discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy is as follow:

**Level 1** – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets and liabilities that the Town has the ability to access at the measurement date. Most of the Town's directly held marketable equity securities would be examples of Level 1 investments.

**Level 2** – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active. Because they most often are priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held fixed income securities are categorized in Level 2. All of the Town's holdings in U.S. government obligations and corporate bonds would be examples of Level 2 investments.

**Level 3** – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative financial instruments.

In determining fair value, the Town utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

***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 Capital Assets***

Capital assets are defined by the Town as assets with an initial individual cost of \$5,000 or more for machinery, vehicles and equipment and \$25,000 for buildings, land, land improvements and infrastructure and an estimated life in excess of two years. Capital assets include property, plant, and equipment, infrastructure assets (e.g. roads, bridges, sidewalks, drainage, and similar items) and are reported in governmental activities.

Purchased or constructed assets are recorded at actual cost or estimated historical cost. Donated capital assets received after June 15, 2015 are recorded at acquisition value and, donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation.

The accounting and reporting treatment applied to capital asserts associated with a fund are determined by the fund's measurement focus. General capital assets are assets of the Town as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the governmental activities column of the government-wide Statement of Net Position. When cost of general capital assets cannot be determined from available records, estimated historical cost is used.

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Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend lives are not capitalized.

In the government-wide financial statements the cost of property sold or retired, together with the related accumulated depreciation, is removed and any resulting gain or loss is included in income.

Capital assets of the Town are depreciated or amortized using the straight-line method over the following estimated useful lives:

<b>Capital Asset Classes:</b>	<b>Years</b>
Land improvements	30
Buildings and building improvements	10 - 50
Machinery, equipment, and vehicles	7 - 30
Infrastructure	40

***1-I Interfund Activities***

Interfund activities are reported as follows:

***Interfund Receivables and Payables*** – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e. the current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

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

***1-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 11, 2016 and October 25, 2016, and due on July 5, 2016 and December 6, 2016. 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.

The Town net assessed valuation as of April 1, 2016 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 410,387,900
For all other taxes	\$ 416,653,775

The tax rates and amounts assessed for the year ended December 31, 2016 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$3.85	\$ 1,607,834
School portion:		
State of New Hampshire	\$2.47	1,012,355
Local	\$14.12	5,882,457
County portion	\$1.06	439,933
Total		<u>\$ 8,942,579</u>

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***1-K Accounts Payable***

Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers as of December 31, 2016.

***1-L Deferred Outflows/Inflows of Resources***

*Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance that applies to a future period(s) and thus will not be recognized as an outflow of resources (expenses) until then.

*Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

***1-M Long-term Obligations***

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

***1-N 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-O Defined Benefit Pension Plan***

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* and GASB Statement No. 82 *Pension Issues – an amendment of GASB Statement No. 67, No. 68 and No.73* 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.

The schedules are prepared by New Hampshire Retirement System, and are audited by the plan's independent auditors.

***1-P Net Position/Fund Balances***

***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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.
- b.) *Restricted net position* – Consists of net assets with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c.) *Unrestricted net position* – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

***Fund Balance Classifications*** – GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides more clearly defined fund balance categories to make sure the nature and extend of the constraints placed on a government's fund balances more transparent.

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The following classifications describe the relative strength of the spending constraints:

**Nonspendable** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form (such as prepaid items, inventory or tax deeded property subject to resale); 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 amounts that are available for any purpose. Positive amounts are reported only in 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 an 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-Q Use of Estimates***

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. These estimates include assessing the collectability of accounts receivable, and the useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from estimates.

## ***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 2016, \$415,000 of the beginning general fund unassigned fund balance was applied for this purpose.

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

The Town employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statement of Revenues, 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)	\$ 2,773,498
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
To record miscellaneous income of the blended funds	31,144
To eliminate transfers between blended funds	(5,900)
Change in deferred tax revenue relating to 60-day revenue recognition	(8,564)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,790,178</u>
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 2,823,886
Adjustment:	
Basis differences:	
Encumbrances, beginning	30,859
Encumbrances, ending	(48,274)
GASB Statement No. 54:	
To record expenditures of the blended funds during the year	278,655
To eliminate transfers between general and blended funds	(330,000)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,755,126</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 \$3,693,622 and the bank balances totaled \$3,776,546.

**Custodial Credit Risk** – The Town's repurchase agreements are all with banking institutions; therefore, are subject to custodial credit risk. The custodial credit risk is the risk that in the event of bank failure, the Town's deposits may not be recovered.

**Interest Rate Risk** – The term repurchase agreements are also subject to interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the value of the Town's investments.

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**NOTE 4 – RESTRICTED ASSETS**

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

Cash and cash equivalents:	
Library fund	\$ 213,424
Investments:	
Expendable trust funds	572,018
Heritage fund	3,147
Total investments	575,165
Total restricted assets	\$ 788,589

**NOTE 5 – INVESTMENTS**

Note 1-F describes statutory requirements covering the investment of the Town funds. The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town's mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Town has the following recurring fair value measurements as of December 31, 2016:

	Valuation Measurement Method	Fair Value
Investments type:		
New Hampshire Public Deposit Investment Pool	Level 2	\$ 428,748
Mutual funds	Level 1	169,568
Certificates of deposit	Level 1	324,965
Bonds	Level 1	102,090
Stocks	Level 1	626,215
Total fair value		\$ 1,651,586

**Fair Value Measurements of Investments** – In accordance with GASB Statement No. 72 *Fair Value Measurement and Application*, except for investments measured using net asset value (NAV) as a practical expedient to estimate fair value, the Town categorizes the fair value measurements of its investments within the fair value hierarchy established by US GAAP. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

**Level 1** inputs reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the Town has the ability to access at the measurement date. Most of the Town's directly held marketable equity securities would be examples of Level 1 investments.

**Level 2** inputs are other than quoted prices that are observable for the assets or liabilities, either directly or indirectly, including inputs in markets that are not considered to be active. Because they most often are priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held fixed income securities are categorized in Level 2.

**Level 3** inputs are significant unobservable inputs. The Town held no Level 3 investments as of December 31, 2016.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances, where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, is the level in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. Investments are reported at fair value. If an investment is held directly by the Town and an active market with quoted prices exists, such as for domestic equity securities, the market price of an identical security is used to report fair value and is classified in Level 1. Corporate fixed income securities and certain governmental securities utilize pricing that may involve estimation using similar securities or trade dates and are classified in Level 2. Fair values for shares in registered mutual funds and exchange-traded funds are based on published share prices and classified in Level 1.



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**Investments in Certain External Investment Pools** - In accordance with GASBS Statement No. 79, Town held investments with the New Hampshire Public Deposit Investment Pool (NHPDIP) are categorized as Level 2. The NHPDIP measures all of its investments at amortized cost. There are no redemption restrictions and shares may be redeemed by the Town in accordance with the NHPDIP's Information Statement.

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

**Concentration of Credit Risk** – The Town places no limit on the amount it may invest in any one issuer. More than 5% of the Town's investments are in certificates of deposit, bonds, and stocks. These investments are 20%, 6%, and 38%, respectively, of the Town's total investments.

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 1,346,840
Investments per Statement of Net Position-Fiduciary Funds (Exhibit E-1)	304,746
Total investments	<u>\$ 1,651,586</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, 2016. 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 2016	\$ 335,677	\$ 335,677
Unredeemed (under tax lien):		
Levy of 2015	72,768	72,768
Levy of 2014	26,230	26,230
Levy of 2013 and prior	1,492	1,492
Less: allowance for estimated uncollectible taxes *	(25,000)	-
Net taxes receivable	<u>\$ 411,167</u>	<u>\$ 436,167</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, 2016, consisted of accounts (billings for police details, ambulance, and other user charges). Receivables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

Receivables as of December 31, 2016 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	\$ 396	\$ 66,579
Less: allowance for uncollectibles	-	(29,418)
Net total receivables	<u>\$ 396</u>	<u>\$ 37,161</u>

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**NOTE 8 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016 is as follows:

	Balance, beginning	Additions	Disposals	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 4,697,036	\$ -	\$ -	\$ 4,697,036
Being depreciated:				
Land improvements	17,216	-	-	17,216
Buildings and building improvements	1,606,834	42,800	-	1,649,634
Machinery, vehicles and equipment	1,183,428	205,398	(13,761)	1,375,065
Infrastructure	2,721,634	246,341	-	2,967,975
Total capital assets being depreciated	5,529,112	494,539	(13,761)	6,009,890
Total all capital assets	10,226,148	494,539	(13,761)	10,706,926
Less accumulated depreciation:				
Land improvements	(6,600)	(574)	-	(7,174)
Buildings and building improvements	(582,723)	(34,548)	-	(617,271)
Machinery, vehicles and equipment	(597,505)	(63,389)	3,784	(657,110)
Infrastructure	(672,354)	(69,067)	-	(741,421)
Total accumulated depreciation	(1,859,182)	(167,578)	3,784	(2,022,976)
Net book value, capital assets being depreciated	3,669,930	326,961	(9,977)	3,986,914
Net book value, all capital assets	\$ 8,366,966	\$ 326,961	\$ (9,977)	\$ 8,683,950

Depreciation expense was charged to functions of the Town based on their usage of the related assets. The amounts allocated to each function are as follows:

General government	\$ 4,728
Public safety	77,270
Highways and streets	70,230
Culture and recreation	15,350
Total depreciation expense	<u>\$ 167,578</u>

**NOTE 9 – INTERFUND BALANCES AND TRANSFERS**

**Interfund Balances** - The composition of interfund balances as of December 31, 2016 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor	\$ 7,111
Nonmajor	General	4,448
		<u>\$ 11,559</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.

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**Interfund Transfers** - The composition of interfund transfers for the year ended December 31, 2016 is as follows:

	Transfers In:		
	General Fund	Nonmajor Fund	Total
Transfers out:			
General fund	\$ -	\$ 4,448	\$ 4,448
Nonmajor funds	207,014	-	207,014
Total	<u>\$ 207,014</u>	<u>\$ 4,448</u>	<u>\$ 211,462</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 10 – INTERGOVERNMENTAL PAYABLES**

Amounts due to other governments of \$3,034,438 at December 31, 2016 consist of the following:

General fund:	
Balance of the 2016-2017 school district assessment due to:	
Hampton Falls School District	\$ 2,368,875
Winnacunnet Cooperative School District	488,110
Total general fund	<u>2,856,985</u>
Agency fund:	
Balance of expendable trust funds due to the Hampton Falls School District	<u>177,453</u>
Total intergovernmental payables due	<u>\$ 3,034,438</u>

**NOTE 11 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

Deferred outflows and inflows of resources of \$185,201 and \$234,815 respectively in the government-wide activities at December 31, 2016 consist of deferred amounts related to pensions see Note 14 for further information.

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	\$ 52,715
Private donations collected in advance of eligible expenditure being made	610
Total deferred inflows of resources	<u>\$ 53,325</u>

**NOTE 12 – CAPITAL LEASE OBLIGATIONS**

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

	Standard Interest Rate	Present Value of Remaining Payments as of December 31, 2016
Capital lease obligation:		
BMSI software	18.00%	<u>\$ 2,000</u>

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The annual requirements to amortize the capital lease payable as of December 31, 2016, including interest payments, are as follows:

Fiscal Year Ending December 31,	Governmental Activities
2017	
	\$ 2,630
Less: interest	(630)
Present value of remaining payments	<u>\$ 2,000</u>

**NOTE 13 – LONG-TERM LIABILITIES**

Changes in the Town's long-term liabilities consisted of the following for the year ended December 31, 2016:

	Balance January 1, 2016 (as restated)	Additions	Reductions	Balance December 31, 2016	Due Within One Year
General obligation bond payable	\$ 1,200,000	\$ -	\$ (120,000)	\$ 1,080,000	\$ 120,000
Capital leases	4,000	-	(2,000)	2,000	2,000
Compensated absences	24,432	-	(7,241)	17,191	-
Pension related liability	993,773	252,512	-	1,246,285	-
Net other postemployment benefits	28,570	37,301	-	65,871	-
Total long-term liabilities	<u>\$ 2,250,775</u>	<u>\$ 289,813</u>	<u>\$ (129,241)</u>	<u>\$ 2,411,347</u>	<u>\$ 122,000</u>

Long-term bonds are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2016	Current Portion
General obligation bond payable:						
2010 refunding bond	\$ 2,115,000	2010	2025	3.96%	<u>\$ 1,080,000</u>	<u>\$ 120,000</u>

The annual requirements to amortize the general obligation bond outstanding as of December 31, 2016, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
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	120,000	26,160	146,160
2022-2025	480,000	53,010	533,010
Totals	<u>\$ 1,080,000</u>	<u>\$ 233,508</u>	<u>\$ 1,313,508</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.

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**NOTE 14 – 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. At age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of 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  $\frac{1}{4}$  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.

**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 2016, the Town contributed 26.38% for police, 29.16% for fire fighters, and 11.17% for all other employees. The contribution requirements for the fiscal years 2014, 2015, and 2016 were \$97,365, \$87,384, and \$103,451, 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, 2016 the Town reported a liability of \$1,246,285 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the Town's proportion was 0.02343700% which was a decrease of 0.00164861% from its proportion measured as of June 30, 2015.

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For the year ended December 31, 2016, the Town recognized pension expense of \$103,145. At December 31, 2016 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	\$ 117,795	\$ -
Changes in assumptions	-	153,378
Differences between expected and actual experience	15,737	3,463
Net difference between projected and actual investment earnings on pension plan investments	-	77,974
Contributions subsequent to the measurement date	51,669	-
Total	<u>\$ 185,201</u>	<u>\$ 234,815</u>

The \$51,669 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 June 30, 2017. 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,	
2017	\$ (8,668)
2018	(8,668)
2019	(40,762)
2020	(41,313)
2021	(1,872)
Totals	<u>\$ (101,283)</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 2016 measurements:

Inflation:	2.5%
Salary increases:	5.6% average, including inflation
Investment rate of return:	7.25% net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on last experience study.

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, 2010 – June 30, 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.

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Following is a table presenting target allocations and long-term rates of return for 2016:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return <u>2016</u>
Large Cap Equities	22.50%	4.25%
Small/Mid Cap Equities	7.50%	4.50%
Total domestic equity	30.00%	
Int'l Equities (unhedged)	13.00%	4.75%
Emerging Int'l Equities	7.00%	6.25%
Total international equity	20.00%	
Core Bonds	5.00%	(0.64%)
Short Duration	2.00%	(0.25%)
Global Multi-Sector Fixed Income	11.00%	(1.71%)
Absolute Return Fixed Income	7.00%	1.08%
Total fixed income	25.00%	
Private equity	5.00%	6.25%
Private debt	5.00%	4.75%
Opportunistic	5.00%	3.68%
Total alternative investments	15.00%	
Real estate	10.00%	3.25%
Total	100.00%	

**Discount Rate:** The discount rate used to measure the collective total pension liability was 7.25%. 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 7.25% 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 (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
June 30, 2016	\$ 1,601,391	\$ 1,246,285	\$ 951,780

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

**NOTE 15 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**Plan Description and Annual OPEB Cost -** 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.

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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 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 similar to pension plans. GASB Statement No. 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements.

The Town has only partially funded (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2016:

Annual required contribution/OPEB cost	\$ 39,021
Interest on net OPEB obligation	1,143
Adjustment to ARC	<u>(1,620)</u>
Annual OPEB cost (expense)	38,544
Contributions made (pay-as-you-go)	<u>(1,243)</u>
Increase in net OPEB obligation	37,301
Net OPEB obligation, beginning	<u>28,570</u>
Net OPEB obligation, ending	<u><u>\$ 65,871</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2016 and the preceding year were as follows:

Fiscal Year Ended	Annual OPEB Contribution Cost	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
December 31, 2016	\$ 38,544	\$ 1,243	3.22%	\$ 65,871
December 31, 2015	\$ 40,073	\$ 11,503	28.71%	\$ 28,570

As of January 1, 2016, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$494,501, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$494,501. The covered payroll (annual payroll of active employees covered by the plan) was \$337,534 during fiscal year 2016, and the ratio of the UAAL to the covered payroll was 146.50%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for Other Postemployment Benefits Plan, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2016 actuarial valuation, the actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return per annum. The projected annual healthcare cost trend is 9% initially, reduced by decrements to an ultimate rate of 5.0% for years 2018 and later. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at December 31, 2016 was 30 years.



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**NOTE 16 – ENCUMBRANCES**

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at December 31, 2016 and are as follows:

General fund:	
General government	\$ 10,688
Culture and recreation	600
Capital outlay	36,986
Total encumbrances	<u>\$ 48,274</u>

**NOTE 17 – GOVERNMENTAL ACTIVITIES NET POSITION**

Governmental activities net position reported on the government-wide Statement of Net Position at December 31, 2016 include the following:

Net investment in capital assets:	
Net property, buildings, and equipment	\$ 8,683,950
Less:	
General obligation bond payable	(1,080,000)
Capital lease payable	(2,000)
Total net investment in capital assets	<u>7,601,950</u>
Restricted for perpetual care:	
Expendable	17,856
Nonexpendable	130,551
Total restricted net position	<u>148,407</u>
Unrestricted	<u>1,052,304</u>
Total net position	<u>\$ 8,802,661</u>

**NOTE 18 – GOVERNMENTAL FUND BALANCES**

Governmental fund balances reported on the fund financial statements at December 31, 2016 include the following:

	General Fund	Nonmajor Funds	Total Governmental Funds
<b>Nonspendable:</b>			
Permanent fund - principal balance	\$ -	\$ 130,551	\$ 130,551
<b>Restricted:</b>			
Library	213,424	-	213,424
Permanent fund - income balance	-	17,856	17,856
Total restricted fund balance	<u>213,424</u>	<u>17,856</u>	<u>231,280</u>
<b>Committed:</b>			
Expendable trust	564,227	-	564,227
Heritage fund	3,147	-	3,147
Conservation commission	-	345,412	345,412
Fire department vehicle	-	191,322	191,322
Recreation	-	36,600	36,600
Fire detail	-	9,906	9,906
Police detail	-	55,392	55,392
Total committed fund balance	<u>567,374</u>	<u>638,632</u>	<u>1,206,006</u>
<b>Assigned:</b>			
Encumbrances	48,274	-	48,274
All other	-	7,531	7,531
Total assigned fund balance	<u>48,274</u>	<u>7,531</u>	<u>55,805</u>
<b>Unassigned</b>	<u>945,690</u>	<u>-</u>	<u>945,690</u>
Total governmental fund balances	<u>\$ 1,774,762</u>	<u>\$ 794,570</u>	<u>\$ 2,569,332</u>

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**NOTE 19 – PRIOR PERIOD ADJUSTMENTS**

Net position at January 1, 2016 was restated to give retroactive effect to the following prior period adjustments:

	Government-wide Statements
To record the beginning:	
Other postemployment benefits liability for implementation of GASB Statement No. 45	\$ (28,570)
Capital assets and related depreciation for full implementation of GASB Statement No. 34	8,366,966
Net position, as previously reported	351,268
Net position, as restated	<u>\$ 8,689,664</u>

**NOTE 20 – 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 2016, the Town was a member of the New Hampshire Public Risk Management Exchange (Primex<sup>3</sup>) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pools, currently operating as common risk management and insurance programs for member Towns and cities.

The New Hampshire Public Risk Management Exchange (Primex<sup>3</sup>) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from January 1, 2016 to December 31, 2016 by Primex<sup>3</sup>, 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, 2016 was \$22,372 for workers' compensation and \$30,131 for property/liability.

**NOTE 21 – RELATED PARTY TRANSACTIONS**

The Town was provided plowing and winter road maintenance services from Environmental Landscape Management. This company is owned by a member of the Board of Selectmen. Total payments to this company during 2016 were \$109,502 and there was no amount owed to or from the company at year end.

**NOTE 22 – 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 July 17, 2017, the date the December 31, 2016 financial statements were available to be issued, and no events occurred that require recognition or disclosure.

***REQUIRED SUPPLEMENTARY INFORMATION***

**EXHIBIT F**  
**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
*Schedule of Funding Progress for Other Postemployment Benefit Plan*  
*For the Fiscal Year Ended December 31, 2016*

Fiscal Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
December 31, 2016	January 1, 2016	\$ -	\$ 494,501	\$ 494,501	0.00%	\$ 337,534	146.50%
December 31, 2015	January 1, 2015	\$ -	\$ 456,468	\$ 456,468	0.00%	\$ 327,703	139.29%

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

**EXHIBIT G**  
**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, 2016*

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, 2016	June 30, 2016	0.02343700%	\$ 1,246,285	\$ 395,224	315.34%	58.30%
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 notes to the required supplementary information is an integral part of this schedule.

**EXHIBIT H**  
**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, 2016*

Fiscal Year End	Valuation Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2016	June 30, 2016	\$ 83,923	\$ 83,923	\$ -	\$ 395,224	21.23%
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 notes to the required supplementary information is an integral part of this schedule.

**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
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***Schedule of Funding Progress for Other Postemployment Benefits (OPEB)***

As required by GASB Statement No. 45, Exhibit F represents the actuarial determined costs associated with the Town's other postemployment benefits for the fiscal year ended December 31, 2016.

The GASB standard on accounting for postretirement benefits other than pensions requires the following disclosures in the financial statements with regard to the retiree benefit liability:

***Assumptions and Methodolgy***

**1. Census Collection Date:** The census used in this report represents the eligible population as of January 1, 2016.

**2. Mortality:** RP-2000 Projected 10 year using Projection Scale AA

**3. Discount Rate:** An interest rate of 4.00% was used.

**4. Retirement Rates:** The following are representative assumed retirement rates for eligible employees:

Age	Group 1		Group 2
	Male	Female	
45	0.00000	0.00000	0.27000
50	0.00000	0.00000	0.30000
55	0.50000	0.50000	0.33000
60	0.12500	0.13000	0.27000
65	0.22000	0.18667	0.28337
>=70	1.00000	1.00000	1.00000

**5. Termination Rates:** These rates represent the percentage of employees who will terminate employment at the given age each year, for reasons other than death, or retirement.

Age	Group 1		Group 2
	Male	Female	
35	0.05500	0.06000	0.03500
40	0.04500	0.05000	0.03000
45	0.04000	0.04000	0.03000
50	0.00000	0.00000	0.03000

**6. Participation Rate:** It was assumed that 100% of full time future retirees will elect coverage under the Blue Choice (BC3T5RDR) plan at retirement.

**7. Percent Married:** It was assumed that 80% of future retirees will be married, with male spouses assumed to be 3 years older than female spouses. For current retirees, actual census information was used.

**8. Actual Value of Assets:** None

**9. Administrative Expenses:** Included in the premiums used

**10. Actuarial Cost Method:** This report was developed using the Projected Unit Credit (PUC) cost method.

**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
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***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 G and H represent the actuarial determined costs associated with the Town's pension plan at December 31, 2016.

**Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2016:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	23 Years beginning July 1, 2016 (30 years beginning July 1, 2009)
Asset Valuation Method	5-Year smooth market for funding purposes
Price Inflation	2.5% per year
Wage Inflation	3.25% per year
Salary Increases	5.6% Average, including inflation
Municipal Bond Rate	2.85% per year
Investment Rate of Return	7.25% per year
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2015.
Mortality	RP-2014 Employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on the last experience study.

**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, 2016*

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 1,527,931	\$ 1,568,611	\$ 40,680
Land use change	100	-	(100)
Yield	500	18	(482)
Payment in lieu of taxes	15,000	14,988	(12)
Interest and penalties on taxes	40,000	31,858	(8,142)
Total from taxes	<u>1,583,531</u>	<u>1,615,475</u>	<u>31,944</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	32,000	28,241	(3,759)
Motor vehicle permit fees	625,000	631,559	6,559
Building permits	19,000	26,905	7,905
Other	10,000	16,542	6,542
Total from licenses, permits, and fees	<u>686,000</u>	<u>703,247</u>	<u>17,247</u>
Intergovernmental:			
State:			
Meals and rooms distribution	115,778	115,778	-
Highway block grant	67,516	67,516	-
Other	2,000	13,658	11,658
Total from intergovernmental	<u>185,294</u>	<u>196,952</u>	<u>11,658</u>
Charges for services:			
Income from departments	<u>4,500</u>	<u>10,163</u>	<u>5,663</u>
Miscellaneous:			
Sale of municipal property	100	-	(100)
Interest on investments	4,000	7,070	3,070
Rent of property	100	342	242
Contributions and donations	-	24,037	24,037
Other	400	3,298	2,898
Total from miscellaneous	<u>4,600</u>	<u>34,747</u>	<u>30,147</u>
Other financing sources:			
Transfers in	<u>234,500</u>	<u>212,914</u>	<u>(21,586)</u>
Total revenues and other financing sources	2,698,425	<u>\$ 2,773,498</u>	<u>\$ 75,073</u>
Unassigned fund balance used to reduce tax rate	415,000		
Total revenues, other financing sources, and use of fund balance	<u>\$ 3,113,425</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, 2016*

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 103,400	\$ 102,710	\$ -	\$ 690
Election and registration	-	83,410	64,416	-	18,994
Financial administration	-	112,060	97,120	10,000	4,940
Legal	-	16,750	10,663	-	6,087
Personnel administration	-	298,840	282,255	-	16,585
Planning and zoning	-	34,480	31,504	-	2,976
General government buildings	-	58,520	51,541	688	6,291
Cemeteries	-	17,325	16,524	-	801
Insurance, not otherwise allocated	-	32,200	31,131	-	1,069
Other	-	24,000	-	-	24,000
Total general government	-	780,985	687,864	10,688	82,433
Public safety:					
Police	-	468,315	441,007	-	27,308
Ambulance	-	84,460	77,437	-	7,023
Fire	-	180,060	175,243	-	4,817
Building inspection	-	32,470	26,813	-	5,657
Emergency management	-	9,500	6,423	-	3,077
Total public safety	-	774,805	726,923	-	47,882
Highways and streets:					
Highways and streets	-	302,300	179,244	-	123,056
Street lighting	-	5,700	3,604	-	2,096
Total highways and streets	-	308,000	182,848	-	125,152
Sanitation:					
Solid waste collection	-	157,800	161,362	-	(3,562)
Solid waste disposal	-	62,015	51,005	-	11,010
Total sanitation	-	219,815	212,367	-	7,448
Health:					
Administration	-	4,840	8,012	-	(3,172)
Pest control	-	32,670	23,136	-	9,534
Health agencies	-	22,695	22,695	-	-
Total health	-	60,205	53,843	-	6,362
Welfare:					
Administration	-	2,850	2,833	-	17
Direct assistance	-	4,150	227	-	3,923
Total welfare	-	7,000	3,060	-	3,940
Culture and recreation:					
Parks and recreation	-	25,750	18,632	600	6,518
Library	-	165,665	164,132	-	1,533
Patriotic purposes	-	600	440	-	160
Other	-	1,000	1,000	-	-
Total culture and recreation	-	193,015	184,204	600	8,211
Conservation	-	2,552	2,552	-	-

(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, 2016*

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Debt service:					
Principal of long-term debt	-	120,000	120,000	-	-
Interest on long-term debt	-	53,100	47,718	-	5,382
Interest on tax anticipation notes	-	1,000	-	-	1,000
Total debt service	-	174,100	167,718	-	6,382
Capital outlay	30,859	258,500	250,644	36,986	1,729
Other financing uses:					
Transfers out	-	334,448	334,448	-	-
Total appropriations, expenditures, other financing uses, and encumbrances	\$ 30,859	\$ 3,113,425	\$ 2,806,471	\$ 48,274	\$ 289,539

**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, 2016**

Unassigned fund balance, beginning (Non-GAAP Budgetary Basis)		\$ 1,023,793
Changes:		
Unassigned fund balance used to reduce 2016 tax rate		(415,000)
2016 Budget summary:		
Revenue surplus (Schedule 1)	\$ 75,073	
Unexpended balance of appropriations (Schedule 2)	<u>289,539</u>	
2016 Budget surplus		<u>364,612</u>
Unassigned fund balance, ending (Non-GAAP Budgetary Basis)		973,405
<b>Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis:</b>		
To comply with generally accepted accounting principles by deferring property taxes not collected within 60 days of fiscal year-end		(52,715)
Elimination of the allowance for uncollectible taxes		<u>25,000</u>
Unassigned fund balance, ending (GAAP basis Exhibit C-1)		<u>\$ 945,690</u>

**SCHEDULE 4**  
**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
*Nonmajor Governmental Funds*  
**Combining Balance Sheet**  
**December 31, 2016**

	Special Revenue Funds						
	Conservation Commission	Fire Department Vehicle	Recreation	Fire Detail	Police Detail	All Other	Permanent Fund
<b>ASSETS</b>							Total
Investments	\$ 340,964	\$ 158,499	\$ 36,600	\$ 10,191	\$ 57,880	\$ 7,531	\$ 148,407
Accounts receivable, net of allowance for uncollectable	-	34,179	-	-	2,982	-	-
Interfund receivable	4,448	-	-	-	-	-	-
Total assets	\$ 345,412	\$ 192,678	\$ 36,600	\$ 10,191	\$ 60,862	\$ 7,531	\$ 148,407
							\$ 801,681
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Interfund payable	\$ -	\$ 1,356	\$ -	\$ 285	\$ 5,470	\$ -	\$ -
							\$ 7,111
<b>Fund balances:</b>							
Nonspendable	-	-	-	-	-	-	130,551
Restricted	-	-	-	-	-	-	17,856
Committed	345,412	191,322	36,600	9,906	55,392	-	638,632
Assigned	-	-	-	-	-	7,531	-
Total fund balances	345,412	191,322	36,600	9,906	55,392	7,531	794,570
Total liabilities and fund balances	\$ 345,412	\$ 192,678	\$ 36,600	\$ 10,191	\$ 60,862	\$ 7,531	\$ 148,407
							\$ 801,681

	Special Revenue Funds						
	Fire						
	Conservation Commission	Department Vehicle	Recreation	Fire Detail	Police Detail	All Other	
<b>Revenues:</b>							
Charges for services	\$ -	\$ 42,179	\$ 14,113	\$ 1,121	\$ 46,068	\$ -	\$ -
Miscellaneous	3,018	1,685	188	49	270	3,898	11,471
Total revenues	3,018	43,864	14,301	1,170	46,338	3,898	11,471
<b>Expenditures:</b>							
Current:							
Public safety	-	4,420	-	570	31,970	-	-
Culture and recreation	-	-	9,940	-	-	174	-
Conservation	5,546	-	-	-	-	-	-
Total expenditures	5,546	4,420	9,940	570	31,970	174	-
Excess (deficiency) of revenues over (under) expenditures	(2,528)	39,444	4,361	600	14,368	3,724	11,471
<b>Other financing sources (uses):</b>							
Transfers in	4,448	-	-	-	-	-	-
Transfers out	-	(203,264)	-	-	-	-	(3,750)
Total other financing sources (uses)	4,448	(203,264)	-	-	-	-	(3,750)
Net change in fund balances	1,920	(163,820)	4,361	600	14,368	3,724	7,721
Fund balances, beginning	343,492	355,142	32,239	9,306	41,024	3,807	140,686
Fund balances, ending	\$ 345,412	\$ 191,322	\$ 36,600	\$ 9,906	\$ 55,392	\$ 7,531	\$ 148,407



## **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, 2016, 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 due to/from trusts) 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 interfund receivables and payable accounts.

It was noted that as of fieldwork dates for the 2016 audit the Town has been completing these reconciliations and timely review of these account is now occurring.

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.

*Plodzik & Sanderson  
Professional Association*

July 17, 2017