

**TOWN OF HAMPTON FALLS,  
NEW HAMPSHIRE**

**ANNUAL FINANCIAL REPORT**

**AS OF AND FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2017**

**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
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**DECEMBER 31, 2017**

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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, 2017, 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, 2017, 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 31), the Schedule of Town's Proportionate Share of Net Pension Liability (page 32), and the Schedule of Town Contributions (page 33) 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*

June 8, 2018

## ***BASIC FINANCIAL STATEMENTS***

**EXHIBIT A**  
**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
**Statement of Net Position**  
**December 31, 2017**

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 4,141,814
Investments	1,040,589
Taxes receivables (net)	441,747
Account receivables (net)	38,735
Intergovernmental receivable	13,910
Capital assets:	
Land and construction in progress	4,697,036
Other capital assets, net of depreciation	3,947,152
Total assets	<u>14,320,983</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Amounts related to pensions	<u>322,101</u>
<b>LIABILITIES</b>	
Accounts payable	32,139
Accrued interest payable	15,161
Intergovernmental payable	2,873,738
Long-term liabilities:	
Due within one year	120,000
Due in more than one year	2,293,538
Total liabilities	<u>5,334,576</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - Property taxes	58,097
Unavailable revenue - Donations	610
Amounts related to pensions	117,278
Total deferred inflows of resources	<u>175,985</u>
<b>NET POSITION</b>	
Net investment in capital assets	7,684,188
Restricted	159,879
Unrestricted	1,288,456
Total net position	<u><u>\$ 9,132,523</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, 2017**

		Program Revenues		Net (Expense)
		Charges	Operating	Revenue and
		for	Grants and	Change In
	Expenses	Services	Contributions	Net Position
General government	\$ 598,553	\$ 2,724	\$ 8,500	\$ (587,329)
Public safety	900,515	61,050	3,637	(835,828)
Highways and streets	388,790	59,481	-	(329,309)
Sanitation	203,352	1,414	-	(201,938)
Health	59,679	-	-	(59,679)
Welfare	2,000	-	-	(2,000)
Culture and recreation	231,017	14,347	-	(216,670)
Conservation	4,393	-	-	(4,393)
Interest on long-term debt	39,504	-	-	(39,504)
Total governmental activities	<u>\$ 2,427,803</u>	<u>\$ 139,016</u>	<u>\$ 12,137</u>	<u>(2,276,650)</u>
General revenues:				
Taxes:				
Property				1,496,387
Other				74,881
Motor vehicle permit fees				731,760
Licenses and other fees				51,604
Grants and contributions not restricted to specific programs				120,966
Unrestricted investment earnings				35,113
Miscellaneous				95,801
Total general revenues				<u>2,606,512</u>
Change in net position				329,862
Net position, beginning				8,802,661
Net position, ending				<u>\$ 9,132,523</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, 2017**

	General	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,512,287	\$ 394,881	\$ 3,907,168
Investments	-	490,669	490,669
Accounts receivable, net of allowance for uncollectible	-	38,735	38,735
Taxes receivable	476,747	-	476,747
Intergovernmental receivable	13,910	-	13,910
Interfund receivable	7,221	10,457	17,678
Restricted assets:			
Cash and cash equivalents	234,646	-	234,646
Investments	549,920	-	549,920
Total assets	<u>\$ 4,794,731</u>	<u>\$ 934,742</u>	<u>\$ 5,729,473</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 32,139	\$ -	\$ 32,139
Intergovernmental payable	2,873,738	-	2,873,738
Interfund payable	3,216	14,462	17,678
Total liabilities	<u>2,909,093</u>	<u>14,462</u>	<u>2,923,555</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - Property taxes	110,634	-	110,634
Unavailable revenue - Donations	610	-	610
Total deferred inflows of resources	<u>111,244</u>	<u>-</u>	<u>111,244</u>
<b>FUND BALANCES</b>			
Nonspendable	-	141,137	141,137
Restricted	228,499	18,742	247,241
Committed	549,019	753,092	1,302,111
Assigned	25,475	7,309	32,784
Unassigned	971,401	-	971,401
Total fund balances	<u>1,774,394</u>	<u>920,280</u>	<u>2,694,674</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,794,731</u>	<u>\$ 934,742</u>	<u>\$ 5,729,473</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, 2017**

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances of governmental funds (Exhibit C-1)		\$ 2,694,674
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.		
Cost	\$ 10,848,816	
Less accumulated depreciation	<u>(2,204,628)</u>	
		8,644,188
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	\$ 322,101	
Deferred inflows of resources related to pensions	<u>(117,278)</u>	
		204,823
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (17,678)	
Payables	<u>17,678</u>	
		-
Long term revenue (taxes) is not available to pay current-period expenditures and therefore, is deferred in the governmental funds.		52,537
Allowance for uncollectible property taxes that is recognized on a full accrual basis, but not on the modified accrual basis.		(35,000)
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(15,161)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bond	\$ 960,000	
Compensated absences	21,325	
Other postemployment benefits	104,149	
Net pension liability	<u>1,328,064</u>	
		(2,413,538)
Net position of governmental activities (Exhibit A)		<u><u>\$ 9,132,523</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, 2017**

	General	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 1,581,456	\$ -	\$ 1,581,456
Licenses and permits	715,314	-	715,314
Intergovernmental	201,143	-	201,143
Charges for services	11,483	127,533	139,016
Miscellaneous	80,870	50,044	130,914
Total revenues	<u>2,590,266</u>	<u>177,577</u>	<u>2,767,843</u>
<b>EXPENDITURES</b>			
Current:			
General government	730,451	-	730,451
Public safety	801,011	41,079	842,090
Highways and streets	419,944	-	419,944
Sanitation	203,352	-	203,352
Health	59,679	-	59,679
Welfare	2,000	-	2,000
Culture and recreation	201,515	12,584	214,099
Conservation	3,116	1,277	4,393
Debt service:			
Principal	120,000	-	120,000
Interest	41,718	-	41,718
Capital outlay	4,775	-	4,775
Total expenditures	<u>2,587,561</u>	<u>54,940</u>	<u>2,642,501</u>
Excess of revenues over expenditures	<u>2,705</u>	<u>122,637</u>	<u>125,342</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	3,750	6,823	10,573
Transfers out	(6,823)	(3,750)	(10,573)
Total other financing sources (uses)	<u>(3,073)</u>	<u>3,073</u>	<u>-</u>
Net change in fund balances	(368)	125,710	125,342
Fund balances, beginning	1,774,762	794,570	2,569,332
Fund balances, ending	<u>\$ 1,774,394</u>	<u>\$ 920,280</u>	<u>\$ 2,694,674</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, 2017**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances of governmental funds (Exhibit C-3) \$ 125,342

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 depreciation expense exceeded capitalized capital outlay in the current period.

Capitalized capital outlay	\$ 141,890	
Depreciation expense	(181,652)	
		(39,762)

Transfers in and out between governmental funds are eliminated on the Statement of Activities.

Transfers in	\$ (10,573)	
Transfers out	10,573	
		-

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	\$ (178)	
Change in allowance for uncollectible taxes	(10,000)	
		(10,178)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Repayment of bond principal	\$ 120,000	
Repayment of capital leases	2,000	
		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	\$ 2,214	
Increase in compensated absences payable	(4,134)	
Increase in postemployment benefits payable	(38,278)	
Net decrease in net pension liability and deferred outflows and inflows related to pensions	172,658	
		132,460

Changes in net position of governmental activities (Exhibit B)		\$ 329,862
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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, 2017**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Taxes	\$ 1,511,899	\$ 1,571,278	\$ 59,379
Licenses and permits	667,500	715,314	47,814
Intergovernmental	193,646	201,143	7,497
Charges for services	6,000	11,483	5,483
Miscellaneous	7,900	22,048	14,148
Total revenues	<u>2,386,945</u>	<u>2,521,266</u>	<u>134,321</u>
<b>EXPENDITURES</b>			
Current:			
General government	807,390	729,924	77,466
Public safety	816,990	758,663	58,327
Highways and streets	320,450	302,826	17,624
Sanitation	211,815	203,352	8,463
Health	60,430	65,679	(5,249)
Welfare	7,000	2,000	5,000
Culture and recreation	196,920	195,118	1,802
Conservation	6,700	3,116	3,584
Debt service:			
Principal	120,000	120,000	-
Interest	42,750	41,718	1,032
Capital outlay	-	(24,736)	24,736
Total expenditures	<u>2,590,445</u>	<u>2,397,660</u>	<u>192,785</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(203,500)</u>	<u>123,606</u>	<u>327,106</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	9,500	9,750	250
Transfers out	(111,000)	(117,823)	(6,823)
Total other financing sources (uses)	<u>(101,500)</u>	<u>(108,073)</u>	<u>(6,573)</u>
Net change in fund balances	<u>\$ (305,000)</u>	<u>15,533</u>	<u>\$ 320,533</u>
Unassigned fund balance, beginning		973,405	
Unassigned fund balance, ending		<u>\$ 988,938</u>	

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

**EXHIBIT E**  
**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
**Fiduciary Funds**  
**Statement of Net Position**  
**December 31, 2017**

	<u>Agency</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 45,610
Investments	<u>237,422</u>
Total assets	<u><u>\$ 283,032</u></u>
<b>LIABILITIES</b>	
Intergovernmental payable	\$ 251,332
Due to others	<u>31,700</u>
Total liabilities	<u><u>\$ 283,032</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, 2017**

	<b><u>NOTE</u></b>
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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, 2017**

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

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

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

***1-A Reporting Entity***

The Town of Hampton Falls is a municipal corporation governed by an elected 3-member Board of Selectmen. In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by the GASB. The Town has no component units to include in its reporting entity.

***1-B Basis of Accounting, and Measurement Focus***

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

***Government-wide Financial Statements*** - The Town's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental activities for the Town accompanied by a total column. Fiduciary activities of the Town are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the Town are reported in two categories: 1) charges for services, and 2) operating grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated.

***Governmental Fund Financial Statements***- Include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying statement is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements. The Town has presented all major funds that met those qualifications

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, with the exception of reimbursement based grants, which use a period of one year. 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current 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.

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

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, and debt service. Under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, guidance the library, heritage, crimeline gift, liberty elm tree, and expendable trust funds are consolidated in the general fund.

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.

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

**Fiduciary Fund Financial Statements** - Include a Statement of Net Position. The Town’s fiduciary funds are Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These funds are accounted for on a spending or “economic resources” measurement focus and the accrual basis of accounting.

The Town also reports the following fiduciary fund:

**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-C 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, 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-D Restricted Assets***

Certain Town assets are classified as restricted assets because their use is restricted by statutory limitation, and/or they are earmarked for specific purposes.

### ***1-E Investments***

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

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

- Obligations of the United States government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the State treasurer.



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

**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. 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 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.

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-F 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-G Capital Assets***

Capital assets include property, plant, and equipment, infrastructure assets (e.g. roads, bridges, sidewalks and similar items), and intangible assets (i.e. easements) which are reported in the government-wide financial statements. The accounting and reporting treatment applied to capital assets 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.

Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 for machinery, vehicles and equipment and \$25,000 for buildings, land, land improvements and infrastructure and an estimated useful life in excess of two years. Such assets are carried at historical cost or estimated historical cost. When the cost of the capital assets cannot be determined from available records, estimated historical cost is used. Donated capital assets received on or prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value.

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The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

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

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

***1-H 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-I 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 3, 2017 and November 6, 2017, and due on July 6, 2017 and December 12, 2017. 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, 2017 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 415,489,000
For all other taxes	\$ 421,349,675

The tax rates and amounts assessed for the year ended December 31, 2017 were as follows:

	<u>Per \$1,000 of Assessed Valuation</u>	<u>Property Taxes Assessed</u>
Municipal portion	\$3.73	\$ 1,568,618
School portion:		
State of New Hampshire	\$2.24	973,486
Local	\$13.95	5,877,923
County portion	\$1.08	456,737
Total		<u><u>\$ 8,876,764</u></u>

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***1-J 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, 2017.

***1-K 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-L 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-M 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-N 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-O 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 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 position with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) *Unrestricted net position* – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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**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 extent of the constraints placed on a government's fund balances are more transparent. 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-P 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.

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

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. For the fiscal year 2017, \$305,000 of the beginning general fund unassigned fund balance was applied for this purpose.

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

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

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

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

Revenues and other financing sources:	
Per Exhibit D (budgetary basis)	\$ 2,531,016
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
To record miscellaneous income of the blended funds	58,822
To eliminate transfers between blended funds	(6,000)
Change in deferred tax revenue relating to 60-day revenue recognition	
recognized as revenue on the GAAP basis, but not on the budgetary basis	10,178
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 2,594,016</u></u>
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 2,515,483
Adjustment:	
Basis differences:	
Encumbrances, beginning	48,274
Encumbrances, ending	(25,475)
GASB Statement No. 54:	
To record expenditures of the blended funds during the year	167,102
To eliminate transfers between general and blended funds	(111,000)
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 2,594,384</u></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 \$4,187,424 and the bank balances totaled \$4,235,877.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 4,141,814
Cash per Statement of Net Position - Fiduciary Fund (Exhibit E)	45,610
Total cash and cash equivalents	<u><u>\$ 4,187,424</u></u>

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**NOTE 4 – RESTRICTED ASSETS**

Cash and investments are classified as restricted for the following purposes:

Cash and cash equivalents:	
General fund:	
Library	\$ 220,822
Heritage	6,147
Crimeline gift	3,010
Liberty elm tree	4,667
Total restricted cash and cash equivalents	<u>234,646</u>
Investments:	
General fund:	
Capital reserve funds	549,920
Total restricted assets	<u><u>\$ 784,566</u></u>

**NOTE 5 – INVESTMENTS**

Note 1-E 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 and maturities as of December 31, 2017:

	Valuation Measurement Method	Fair Value	Less Than 1 Year
Investments type:			
Stocks	Level 1	\$ 121,827	\$ -
Mutual Funds	Level 1	190,616	-
Certificates of Deposit	Level 1	327,041	327,041
Bonds	Level 1	638,527	-
Total fair value		<u><u>\$ 1,278,011</u></u>	<u><u>\$ 327,041</u></u>

**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 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.

**Custodial Credit Risk** – This is the risk that in the event of the failure of the counterparty (e.g. broker/dealer) to honor a transaction, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 1,040,589
Investments per Statement of Net Position - Fiduciary Funds (Exhibit E)	237,422
Total investments	<u><u>\$ 1,278,011</u></u>

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**NOTE 6 – TAXES RECEIVABLE**

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of December 31, 2017. The amount has been reduced by an allowance for an estimated uncollectible amount of \$35,000. Taxes receivable by year are as follows:

	As reported on:	
	Exhibit A	Exhibit C-1
Property:		
Levy of 2017	\$ 341,051	\$ 341,051
Unredeemed (under tax lien):		
Levy of 2016	90,564	90,564
Levy of 2015	44,947	44,947
Levies of 2014 and prior	185	185
Less: allowance for estimated uncollectible taxes	(35,000) *	-
Net taxes receivable	<u>\$ 441,747</u>	<u>\$ 476,747</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, 2017, consisted of accounts (billings for police details, ambulance and other user charges) and intergovernmental amounts arising from grants. Receivables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

Receivables as of December 31, 2017 for the Town's nonmajor funds in the aggregate including applicable allowances for uncollectible accounts are as follows:

	Nonmajor Funds
Receivables:	
Accounts	\$ 57,327
Less: allowance for uncollectibles	(18,592)
Net total receivables	<u>\$ 38,735</u>

**NOTE 8 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017 is as follows:

	Balance, beginning	Additions	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	1,649,634	-	1,649,634
Machinery, vehicles, and equipment	1,375,065	29,572	1,404,637
Infrastructure	2,967,975	112,318	3,080,293
Total capital assets being depreciated	<u>6,009,890</u>	<u>141,890</u>	<u>6,151,780</u>
Total all capital assets	<u>10,706,926</u>	<u>141,890</u>	<u>10,848,816</u>

(Continued)

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*Capital assets continued:*

	Balance, beginning	Additions	Balance, ending
Less accumulated depreciation:			
Land improvements	(7,174)	(574)	(7,748)
Buildings and building improvements	(617,271)	(35,619)	(652,890)
Machinery, vehicles, and equipment	(657,110)	(71,260)	(728,370)
Infrastructure	(741,421)	(74,199)	(815,620)
Total accumulated depreciation	(2,022,976)	(181,652)	(2,204,628)
Net book value, capital assets being depreciated	3,986,914	(39,762)	3,947,152
Net book value, all governmental activities capital assets	<u>\$ 8,683,950</u>	<u>\$ (39,762)</u>	<u>\$ 8,644,188</u>

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	84,115
Highways and streets	76,389
Culture and recreation	16,420
Total depreciation expense	<u>\$ 181,652</u>

**NOTE 9– INTERFUND BALANCES AND TRANSFERS**

**Interfund Balances** - The composition of interfund balances as of December 31, 2017 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor	\$ 7,221
Nonmajor	General	3,216
Nonmajor	Nonmajor	7,241
		<u>\$ 17,678</u>

The outstanding balances among funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund Transfers** - The composition of interfund transfers for the year ended December 31, 2017 is as follows:

	Transfers In:		
	General Fund	Nonmajor Fund	Total
Transfers out:			
General fund	\$ -	\$ 6,823	\$ 6,823
Nonmajor fund	3,750	-	3,750
Total	<u>\$ 3,750</u>	<u>\$ 6,823</u>	<u>\$ 10,573</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.



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**NOTE 10 – INTERGOVERNMENTAL PAYABLES**

Amounts due to other governments of \$3,125,070 at December 31, 2017 consist of the following:

General fund:	
Balance of the 2017-2018 school district assessment due to:	
Hampton Falls School District	\$ 2,261,123
Winnacunnet Cooperative School District	595,180
Balance due to the New Hampshire Retirement System	17,435
Total general fund	<u>2,873,738</u>
Agency fund:	
Balance of expendable trust funds due to the Hampton Falls School District	251,332
Total intergovernmental payables due	<u><u>\$ 3,125,070</u></u>

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

Deferred outflows of resources of \$322,101 reported in the government wide activities at December 31, 2017 consist of deferred amounts related to pensions, see Note 13 for further information.

Deferred inflows of resources of \$111,244 reported in the general fund are as follows:

	Government-wide Activities	General Fund
Deferred property taxes not collected within 60 days of fiscal year-end	\$ -	\$ 52,537
Property taxes payments received in advance of issued warrants	58,097	58,097
Private donations collected in advance of eligible expenditures being made	610	610
Deferred inflows related to pensions, see Note 13	117,278	-
Total deferred inflows of resources	<u><u>\$ 175,985</u></u>	<u><u>\$ 111,244</u></u>

**NOTE 12 – LONG-TERM LIABILITIES**

Changes in the Town's long-term liabilities consisted of the following for the year ended December 31, 2017:

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017	Due Within One Year
General obligation bond payable	\$ 1,080,000	\$ -	\$ (120,000)	\$ 960,000	\$ 120,000
Capital leases	2,000	-	(2,000)	-	-
Compensated absences	17,191	4,134	-	21,325	-
Net other postemployment benefits	65,871	38,278	-	104,149	-
Pension related liability	1,246,285	81,779	-	1,328,064	-
Total long-term liabilities	<u><u>\$ 2,411,347</u></u>	<u><u>\$ 124,191</u></u>	<u><u>\$ (122,000)</u></u>	<u><u>\$ 2,413,538</u></u>	<u><u>\$ 120,000</u></u>

The long-term bond is comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2017	Current Portion
General obligation bond payable:						
2010 refunding bond	\$ 2,115,000	2010	2025	3.96%	<u><u>\$ 960,000</u></u>	<u><u>\$ 120,000</u></u>

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The annual requirements to amortize the general obligation bond outstanding as of December 31, 2017, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
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	120,000	21,060	141,060
2023-2025	360,000	31,950	391,950
Totals	<u>\$ 960,000</u>	<u>\$ 187,590</u>	<u>\$ 1,147,590</u>

All debt is general obligation debt of the Town, which is backed by its full faith and credit, and will be repaid from general governmental revenues.

**NOTE 13 – 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 publicly 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 ¼ of 1% or age 60.

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

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**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 2017, the Town contributed the following amounts:

Period	Police	Fire	All Other Employees
January 1, 2017 thru June 30, 2017	26.38%	29.16%	11.17%
July 1, 2017 thru December 31, 2017	29.43%	31.89%	11.38%

The contribution requirements for the fiscal years 2015, 2016, and 2017 were \$87,384, \$103,451, and \$111,503, respectively, which were paid in full in each year.

**Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions:** At December 31, 2017 the Town reported a liability of \$1,328,064 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the Town's proportion was 0.02700418% which was an increase of 0.00356718% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Town recognized pension expense of \$137,908. At December 31, 2017 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	\$ 124,994	\$ 83,462
Changes in assumptions	133,355	-
Net difference between projected and actual investment earnings on pension plan investments	-	16,914
Differences between expected and actual experience	3,011	16,902
Contributions subsequent to the measurement date	60,741	-
Total	<u>\$ 322,101</u>	<u>\$ 117,278</u>

The \$60,741 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, 2018. 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,	
2018	\$ 21,478
2019	57,855
2020	56,565
2021	8,184
Totals	<u>\$ 144,082</u>

**Actuarial Assumptions:** The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2016, using the following actuarial assumptions which, accordingly apply to 2017 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

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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, 2016 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. Following is a table presenting target allocations and long-term rates of return for 2017:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return <u>2017</u>
Large Cap Equities	22.50%	4.25%
Small/Mid Cap Equities	7.50%	4.50%
Total domestic equity	<u>30.00%</u>	
Int'l Equities (unhedged)	13.00%	4.50%
Emerging Int'l Equities	7.00%	6.25%
Total international equity	<u>20.00%</u>	
Core Bonds	5.00%	0.75%
Short Duration	2.00%	(0.25%)
Global Multi-Sector Fixed Income	11.00%	2.11%
Absolute Return Fixed Income	7.00%	1.26%
Total fixed income	<u>25.00%</u>	
Private equity	5.00%	6.25%
Private debt	5.00%	4.75%
Opportunistic	5.00%	2.84%
Total alternative investments	<u>15.00%</u>	
Real estate	10.00%	3.25%
Total	<u><u>100.00%</u></u>	

**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, 2017	\$ 1,749,657	\$ 1,328,064	\$ 982,584

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**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 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

GASB Statement No. 45, Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions (OPEB), requires governmental employees over their years of service but not received until after employment ends. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net position when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that the Town does not fund its actuarially required contribution, a post-employment benefit liability is recognized on the statement of net position over time.

The Town provides its eligible retirees, including in some cases, their beneficiaries, the ability to purchase health, dental, and prescription insurance at the Town's group rates. The authority for the benefits and amending of such benefits is NH RSA 100-A:50. Although the Town does not supplement the cost of these plans, Statement 45 requires the Town to recognize a liability for the inclusion of any implicit rate subsidies afforded its retirees. This subsidy is generated as a result of the basic nature of insurance-one risk group subsidizes another to arrive at a blended premium, therefore current employees who are young and healthy subsidize the older retirees. As of December 31, 2017, there were 1 retiree subscribers, including eligible spouses and dependents and 7 active employees that meet the eligibility requirements. The single employer defined benefit plan does not issue a separate financial report.

The Town's fiscal 2017 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined 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 the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for year ending December 31, 2017, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2015:

	For the Year Ended December 31, 2017
Annual required contribution	\$ 41,364
Interest on net OPEB obligation	2,635
Adjustment to annual required contribution	(3,735)
Annual OPEB cost (expense)	40,264
Contributions made	(1,986)
Increase in net OPEB obligation	38,278
Net OPEB obligation - beginning of year	65,871
Net OPEB Obligation - end of year	<u>\$ 104,149</u>

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

Fiscal Year Ending December 31,	Annual OPEB Cost	Expected Contribution	Percentage Contributed	Ending Net OPEB Obligation
2015	\$ 40,073	\$ 11,503	28.71%	\$ 28,570
2016	\$ 38,544	\$ 1,243	3.22%	\$ 65,871
2017	\$ 40,264	\$ 1,986	3.22%	\$ 104,149

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The Town offers benefits that require the retiree to pay 100% of the cost of premiums. The underlying OPEB obligation for the Town arises from an implied subsidy based on the fact that the benefits provided to the active and retired employees are identical. As a result, the active employees are subsidizing the cost of the benefits provided to the retired employees. The funding policy used by the Town is based on the pay-as-you-go methodology with the exception that the funding for the cost of retiree benefits is recognized annually through the payment of the premiums for the active employees. This funding practice results in no Net OPEB obligation being carried to the balance sheet for the retirees.

As of January 1, 2016, the most recent valuation date, the plan was 0% funded. The accrued liability for benefits was \$327,703 and the value of assets was \$0, resulting in an unfunded accrued liability (UAL) of \$327,703. The covered payroll (annual payroll of active employees covered by the plan) was \$327,703, and the ratio of the UAL to the covered payroll was 139.3%. Valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectation and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the 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 cost methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the value of asset, consistent with the long-term perspective of the calculations.

In January 1, 2016 the valuation, the Projected Unit Credit cost method was used, the assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date.

The annual healthcare cost trend rates below were applied:

<u>Year</u>	<u>Medical</u>
12/31/2015	8.10%
12/31/2016	2.91%
12/31/2017	9.50%
12/31/2018	9.00%
12/31/2019	8.50%
12/31/2020	8.00%
12/31/2021	7.50%
12/31/2022	7.00%
12/31/2023	6.50%
12/31/2024	6.00%
12/31/2025	5.50%
12/31/2026	5.00%

The remaining amortization period at December 31, 2015 was 29 years.

**NOTE 15 – ENCUMBRANCES**

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at December 31, 2017 and are as follows:

General fund:	
Financial administration	\$ 1,000
Other general government	11,000
Health	6,000
Capital outlay	7,475
Total encumbrances	<u>\$ 25,475</u>

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**NOTE 16 – GOVERNMENTAL ACTIVITIES NET POSITION**

Governmental activities net position reported on the government-wide Statement of Net Position at December 31, 2017 include the following:

Net investment in capital assets:	
Net book value, all capital assets	\$ 8,644,188
Less:	
General obligation bond payable	(960,000)
Total net investment in capital assets	<u>7,684,188</u>
Restricted for perpetual care:	
Permanent fund - principal balance	18,742
Permanent fund - income balances	141,137
Total restricted net position	<u>159,879</u>
Unrestricted	<u>1,288,456</u>
Total net position	<u><u>\$ 9,132,523</u></u>

**NOTE 17 – GOVERNMENTAL FUND BALANCES**

Governmental fund balances reported on the fund financial statements at December 31, 2017 include the following:

	General Fund	Nonmajor Funds	Total Governmental Funds
<b>Nonspendable:</b>			
Permanent fund - principal balance	\$ -	\$ 141,137	\$ 141,137
<b>Restricted:</b>			
Library	220,822	-	220,822
Crimeline gift	3,010	-	3,010
Liberty elm tree	4,667	-	4,667
Permanent - income balance	-	18,742	18,742
Total restricted fund balance	<u>228,499</u>	<u>18,742</u>	<u>247,241</u>
<b>Committed:</b>			
Expendable trust	542,872	-	542,872
Heritage fund	6,147	-	6,147
Conservation commission	-	353,730	353,730
Fire department vehicle	-	248,306	248,306
Recreation	-	36,243	36,243
Fire detail	-	11,747	11,747
Police detail	-	77,782	77,782
Town communication	-	25,284	25,284
Total committed fund balance	<u>549,019</u>	<u>753,092</u>	<u>1,302,111</u>
<b>Assigned:</b>			
Encumbrances	25,475	-	25,475
All other	-	7,309	7,309
Total assigned fund balance	<u>25,475</u>	<u>7,309</u>	<u>32,784</u>
<b>Unassigned</b>	<u>971,401</u>	<u>-</u>	<u>971,401</u>
Total governmental fund balances	<u><u>\$ 1,774,394</u></u>	<u><u>\$ 920,280</u></u>	<u><u>\$ 2,694,674</u></u>

**NOTE 18 – RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2017, 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 pool, currently operating as common risk management and insurance programs for member Towns and cities.

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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, 2017 to December 31, 2017 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, 2017 was \$21,631 for workers' compensation and \$30,106 for property/liability.

**NOTE 19 – 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 2017 were \$208,714 and there was no amount owed to or from the company at year-end.

**NOTE 20 – CONTINGENT LIABILITIES**

The Town participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

**NOTE 21 – SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through June 8, 2018, the date the December 31, 2017 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, 2017*

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, 2017	January 1, 2017	\$ -	\$ 520,589	\$ 520,589	0.00%	\$ 337,534	154.23%
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, 2017*

<u>Fiscal Year End</u>	<u>Valuation Date</u>	<u>Town's Proportion of Net Pension Liability</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Town Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
December 31, 2017	June 30, 2017	0.02700418%	\$ 1,328,064	\$ 492,376	269.73%	62.66%
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, 2017*

Fiscal Year End	Valuation Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2017	June 30, 2017	\$ 98,928	\$ 98,928	\$ -	\$ 492,376	20.09%
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**  
**FOR THE FISCAL YEAR ENDED**  
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***Schedule of Funding Progress for Other Postemployment Benefits (OPEB)***

This schedule is presented to show information for 10 years. However, information is only presented for years which information is available.

***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, 2017, and preceding four years.

**Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2017:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	22 Years beginning July 1, 2017 (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	3.56% 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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These schedules are presented to show information for 10 years. However, information is only presented for years which information is available.

***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, 2017**

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 1,468,799	\$ 1,496,387	\$ 27,588
Land use change	100	24,710	24,610
Yield	500	397	(103)
Payment in lieu of taxes	15,000	15,000	-
Interest and penalties on taxes	27,500	34,784	7,284
Total from taxes	<u>1,511,899</u>	<u>1,571,278</u>	<u>59,379</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	2,000	10,334	8,334
Motor vehicle permit fees	635,000	663,720	28,720
Building permits	18,000	18,947	947
Other	12,500	22,313	9,813
Total from licenses, permits, and fees	<u>667,500</u>	<u>715,314</u>	<u>47,814</u>
Intergovernmental:			
State:			
Meals and rooms distribution	115,105	115,105	-
Highway block grant	68,041	68,040	(1)
Other	10,500	12,137	1,637
Federal:			
Other	-	5,861	5,861
Total from intergovernmental	<u>193,646</u>	<u>201,143</u>	<u>7,497</u>
Charges for services:			
Income from departments	<u>6,000</u>	<u>11,483</u>	<u>5,483</u>
Miscellaneous:			
Sale of municipal property	100	-	(100)
Interest on investments	7,500	15,262	7,762
Other	300	6,786	6,486
Total from miscellaneous	<u>7,900</u>	<u>22,048</u>	<u>14,148</u>
Other financing sources:			
Transfers in	<u>9,500</u>	<u>9,750</u>	<u>250</u>
Total revenues and other financing sources	<u>2,396,445</u>	<u>\$ 2,531,016</u>	<u>\$ 134,571</u>
Unassigned fund balance used to reduce tax rate	<u>305,000</u>		
Total revenues, other financing sources, and use of fund balance	<u>\$ 2,701,445</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, 2017**

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 109,220	\$ 108,187	\$ -	\$ 1,033
Election and registration	-	72,355	57,868	-	14,487
Financial administration	10,000	119,335	120,352	1,000	7,983
Legal	-	17,000	19,373	-	(2,373)
Personnel administration	-	311,315	287,023	-	24,292
Planning and zoning	-	37,325	32,385	-	4,940
General government buildings	688	60,495	48,115	-	13,068
Cemeteries	-	24,235	25,203	-	(968)
Insurance, not otherwise allocated	-	32,110	30,106	-	2,004
Other	-	24,000	-	11,000	13,000
Total general government	10,688	807,390	728,612	12,000	77,466
Public safety:					
Police	-	502,375	454,848	-	47,527
Ambulance	-	85,415	82,509	-	2,906
Fire	-	185,130	184,443	-	687
Building inspection	-	34,570	27,845	-	6,725
Emergency management	-	9,500	9,018	-	482
Total public safety	-	816,990	758,663	-	58,327
Highways and streets:					
Highways and streets	-	314,750	299,005	-	15,745
Street lighting	-	5,700	3,821	-	1,879
Total highways and streets	-	320,450	302,826	-	17,624
Sanitation:					
Solid waste collection	-	157,920	158,739	-	(819)
Solid waste disposal	-	53,895	44,613	-	9,282
Total sanitation	-	211,815	203,352	-	8,463
Health:					
Administration	-	5,015	8,063	-	(3,048)
Pest control	-	32,720	28,921	6,000	(2,201)
Health agencies	-	22,695	22,695	-	-
Total health	-	60,430	59,679	6,000	(5,249)
Welfare:					
Administration	-	2,850	2,000	-	850
Direct assistance	-	4,150	-	-	4,150
Total welfare	-	7,000	2,000	-	5,000
Culture and recreation:					
Parks and recreation	600	25,750	24,107	-	2,243
Library	-	165,570	166,128	-	(558)
Patriotic purposes	-	5,600	5,483	-	117
Total culture and recreation	600	196,920	195,718	-	1,802
Conservation	-	6,700	3,116	-	3,584

(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, 2017**

	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	-	41,750	41,718	-	32
Interest on tax anticipation notes	-	1,000	-	-	1,000
Total debt service	-	162,750	161,718	-	1,032
Capital outlay	36,986	-	4,775	7,475	24,736
Other financing uses:					
Transfers out	-	111,000	117,823	-	(6,823)
Total appropriations, expenditures, other financing uses, and encumbrances	\$ 48,274	\$ 2,701,445	\$ 2,538,282	\$ 25,475	\$ 185,962

**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, 2017**

Unassigned fund balance, beginning (Non-GAAP Budgetary Basis)		\$ 973,405
Changes:		
Unassigned fund balance used to reduce 2017 tax rate		(305,000)
2017 Budget summary:		
Revenue surplus (Schedule 1)	\$ 134,571	
Unexpended balance of appropriations (Schedule 2)	185,962	
2017 Budget surplus		<u>320,533</u>
Unassigned fund balance, ending (Non-GAAP Budgetary Basis)		988,938
<b>Reconciliation on Non-GAAP Budgetary Basis to GAAP Basis</b>		
To record deferred property taxes not collected within 60 days of the fiscal year-end, not recognized on a budgetary basis		(52,537)
To eliminate the allowance for uncollectible taxes not recognized on a GAAP basis		<u>35,000</u>
Unassigned fund balance, ending, GAAP basis (Exhibit C-1)		<u><u>\$ 971,401</u></u>

**SCHEDULE 4**  
**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**December 31, 2017**

	Special Revenue Funds								Total
	Conservation Commission	Fire Department Vehicle	Recreation	Fire Detail	Police Detail	All Other	Town Communications	Permanent Fund	
<b>ASSETS</b>									
Cash and cash equivalents	\$ 23,474	\$ 222,290	\$ 36,243	\$ 5,684	\$ 74,597	\$ 7,309	\$ 25,284	\$ -	\$ 394,881
Investments	327,040	-	-	-	-	-	-	163,629	490,669
Accounts receivable, net of allowance for uncollectable	-	33,710	-	-	5,025	-	-	-	38,735
Interfund receivable	3,216	-	-	7,241	-	-	-	-	10,457
Total assets	<u>\$ 353,730</u>	<u>\$ 256,000</u>	<u>\$ 36,243</u>	<u>\$ 12,925</u>	<u>\$ 79,622</u>	<u>\$ 7,309</u>	<u>\$ 25,284</u>	<u>\$ 163,629</u>	<u>\$ 934,742</u>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Interfund payable	\$ -	\$ 7,694	\$ -	\$ 1,178	\$ 1,840	\$ -	\$ -	\$ 3,750	\$ 14,462
<b>Fund balances:</b>									
Nonspendable	-	-	-	-	-	-	-	141,137	141,137
Restricted	-	-	-	-	-	-	-	18,742	18,742
Committed	353,730	248,306	36,243	11,747	77,782	-	25,284	-	753,092
Assigned	-	-	-	-	-	7,309	-	-	7,309
Total fund balances	<u>353,730</u>	<u>248,306</u>	<u>36,243</u>	<u>11,747</u>	<u>77,782</u>	<u>7,309</u>	<u>25,284</u>	<u>159,879</u>	<u>920,280</u>
Total liabilities and fund balances	<u>\$ 353,730</u>	<u>\$ 256,000</u>	<u>\$ 36,243</u>	<u>\$ 12,925</u>	<u>\$ 79,622</u>	<u>\$ 7,309</u>	<u>\$ 25,284</u>	<u>\$ 163,629</u>	<u>\$ 934,742</u>

**SCHEDULE 5**  
**TOWN OF HAMPTON FALLS, NEW HAMPSHIRE**  
*Nonmajor Governmental Funds*  
**Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**For the Fiscal Year Ended December 31, 2017**

	Special Revenue Funds								
	Conservation Commission	Fire Department Vehicle	Recreation	Fire Detail	Police Detail	All Other	Town Communications	Permanent Fund	Total
<b>Revenues:</b>									
Charges for services	\$ -	\$ 59,580	\$ 8,472	\$ 3,267	\$ 56,214	\$ -	\$ -	\$ -	\$ 127,533
Miscellaneous	2,772	1,699	324	850	684	3,209	25,284	15,222	50,044
Total revenues	2,772	61,279	8,796	4,117	56,898	3,209	25,284	15,222	177,577
<b>Expenditures:</b>									
Current:									
Public safety	-	4,295	-	2,276	34,508	-	-	-	41,079
Culture and recreation	-	-	9,153	-	-	3,431	-	-	12,584
Conservation	1,277	-	-	-	-	-	-	-	1,277
Total expenditures	1,277	4,295	9,153	2,276	34,508	3,431	-	-	54,940
Excess (deficiency) of revenues over (under) expenditures	1,495	56,984	(357)	1,841	22,390	(222)	25,284	15,222	122,637
<b>Other financing sources (uses):</b>									
Transfers in	6,823	-	-	-	-	-	-	-	6,823
Transfers out	-	-	-	-	-	-	-	(3,750)	(3,750)
Total other financing sources (uses)	6,823	-	-	-	-	-	-	(3,750)	3,073
Net change in fund balances	8,318	56,984	(357)	1,841	22,390	(222)	25,284	11,472	125,710
Fund balances, beginning	345,412	191,322	36,600	9,906	55,392	7,531	-	148,407	794,570
Fund balances, ending	\$ 353,730	\$ 248,306	\$ 36,243	\$ 11,747	\$ 77,782	\$ 7,309	\$ 25,284	\$ 159,879	\$ 920,280



## **PLODZIK & SANDERSON**

*Professional Association/Accountants & Auditors*

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### ***INDEPENDENT AUDITOR'S COMMUNICATION OF MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCY***

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, 2017, 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 and other deficiencies that we consider to be a significant deficiency.

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:

#### **General Ledger Maintenance**

During our testing of the general ledger accounts (specifically the due to/from trust funds) 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.

#### **Town Cash & Treasurer**

During review of the internal control procedures related to cash and the duties of the Town Treasurer, there were several items noted.

1. 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.
2. There is no deputy treasurer available to perform the duties of the Treasurer should they become unable to do so.
3. Deposits and disbursements were posted to incorrect special accounts during the year and these errors were not corrected by the appropriate municipal official during the year.
4. The year-end Treasurer's reconciliation/report was inaccurate and did not agree to the bank or to the general ledger.
5. There is a lack of communication between the Treasurer and the Bookkeeper regarding ACH payments received, which was a large deposit received and not recorded on the Town's general ledger.

***Town of Hampton Falls***

***Independent Auditor's Communication of Material Weaknesses and Significant Deficiency***

6. The Treasurer is not making deposits and has not formally delegated deposit authority to another Town employee.
7. There are electronic transfers between bank accounts being made inaccurately and without the formal approval of the Board Selectmen.

We recommend that the Town take action to appoint a Deputy Treasurer, and formally delegate deposit authority to an appropriate Town employee. We further recommend that the Treasurer's reconciliation be completed accurately to the bank for all Town accounts and that this reconciliation be compared to the Town's general ledger. Any variances between these should be resolved as soon as possible. There should be formal approval given to the Treasurer for all electronic transfers between accounts.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be a significant deficiency:

**Transfers to and from Capital Reserve Accounts**

While reviewing the Town's capital reserve accounts it was noted that the Town does not always transfer over approved amounts to the funds per the annual meeting, but rather expends funds out of the general fund and any amount spent over the approved transfer is then requested to be reimbursed from the trust accounts. In accordance with State RSA 35:12, *Appropriation*, "whenever the vote of the town is to appropriate any sum for the capital reserve fund...the order must be drawn and the sum transferred on or before December 15 following the vote." We recommend that any funds approved to be transferred to the capital reserves be paid over to the Trustees in accordance with State statutes.

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*

June 8, 2018