

**TOWN OF HAMPTON FALLS,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018**

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018
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PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX 603-224-1380

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, 2018, 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, 2018, 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.

Change in Accounting Principle

As discussed in Note 2-C to the financial statements, in fiscal year 2018 the Town adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

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

Town of Hampton Falls
Independent Auditor's Report

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.

Required Supplementary Information – Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements:

- Schedule of the Town's Proportionate Share of Net Pension Liability,
- Schedule of Town Contributions – Pensions,
- Schedule of the Town's Proportionate Share of the Net Other Postemployment Benefits Liability,
- Schedule of the Town Contributions – Other Postemployment Benefits,
- Schedule of Changes in the Town's Total Other Postemployment Benefits Liability and Related Ratios, and
- Notes to the Required Supplementary Information

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.

April 25, 2019

Plodzik & Sanderson
Professional Association

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Statement of Net Position
December 31, 2018

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 4,276,370
Investments	1,067,078
Taxes receivables (net)	550,285
Account receivables (net)	26,884
Capital assets:	
Land and construction in progress	4,708,636
Other capital assets, net of depreciation	3,936,138
Total assets	<u>14,565,391</u>
DEFERRED OUTFLOWS OF RESOURCES	
Amounts related to pensions	250,118
Amounts related to other postemployment benefits	29,598
Total deferred outflows of resources	<u>279,716</u>
LIABILITIES	
Accounts payable	29,070
Accrued interest payable	13,345
Intergovernmental payable	3,495,916
Long-term liabilities:	
Due within one year	120,000
Due in more than one year	2,379,196
Total liabilities	<u>6,037,527</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - Donations	610
Amounts related to pensions	138,487
Amounts related to other postemployment benefits	316,382
Total deferred inflows of resources	<u>455,479</u>
NET POSITION	
Net investment in capital assets	7,804,774
Restricted	150,518
Unrestricted	396,809
Total net position	<u><u>\$ 8,352,101</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, 2018

		Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change In Net Position
General government	\$ 1,169,909	\$ 1,284	\$ -	\$ -	\$ (1,168,625)
Public safety	948,333	90,839	38,770	-	(818,724)
Highways and streets	399,312	-	-	127,699	(271,613)
Sanitation	197,912	3,763	-	-	(194,149)
Health	60,005	-	-	-	(60,005)
Welfare	4,539	-	-	-	(4,539)
Culture and recreation	234,654	16,488	-	-	(218,166)
Conservation	5,200	-	-	-	(5,200)
Interest on long-term debt	33,054	-	-	-	(33,054)
Total governmental activities	<u>\$ 3,052,918</u>	<u>\$ 112,374</u>	<u>\$ 38,770</u>	<u>\$ 127,699</u>	<u>(2,774,075)</u>
General revenues:					
Taxes:					
Property					1,151,542
Other					84,199
Motor vehicle permit fees					676,048
Licenses and other fees					53,070
Grants and contributions not restricted to specific programs					138,840
Unrestricted investment earnings					28,402
Miscellaneous					59,757
Total general revenues					<u>2,191,858</u>
Change in net position					(582,217)
Net position, beginning, as restated (see Note 18)					8,934,318
Net position, ending					<u>\$ 8,352,101</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, 2018

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,547,767	\$ 510,631	\$ 4,058,398
Investments	-	481,556	481,556
Receivables, net of allowance for uncollectible:			
Taxes	585,285	-	585,285
Accounts	-	26,884	26,884
Interfund receivable	2,452	9,725	12,177
Restricted assets:			
Cash and cash equivalents	217,972	-	217,972
Investments	585,522	-	585,522
Total assets	<u>\$ 4,938,998</u>	<u>\$ 1,028,796</u>	<u>\$ 5,967,794</u>
LIABILITIES			
Accounts payable	\$ 29,070	\$ -	\$ 29,070
Intergovernmental payable	3,495,916	-	3,495,916
Interfund payable	2,596	9,581	12,177
Total liabilities	<u>3,527,582</u>	<u>9,581</u>	<u>3,537,163</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - Property taxes	32,857	-	32,857
Unavailable revenue - Donations	610	-	610
Total deferred inflows of resources	<u>33,467</u>	<u>-</u>	<u>33,467</u>
FUND BALANCES			
Nonspendable	-	132,315	132,315
Restricted	225,409	18,203	243,612
Committed	574,412	860,417	1,434,829
Assigned	11,643	8,280	19,923
Unassigned	566,485	-	566,485
Total fund balances	<u>1,377,949</u>	<u>1,019,215</u>	<u>2,397,164</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,938,998</u>	<u>\$ 1,028,796</u>	<u>\$ 5,967,794</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 - Governmental Funds to the Statement of Net Position
December 31, 2018

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

Total fund balances of governmental funds (Exhibit C-1)		\$ 2,397,164
Capital assets used in governmental activities are not current financial resources, therefore, are not reported in the governmental funds.		
Cost	\$ 10,992,297	
Less accumulated depreciation	<u>(2,347,523)</u>	
		8,644,774
Pension and other postemployment benefit (OPEB) related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year, and therefore, are not reported in the governmental funds as follows:		
Deferred outflows of resources related to pensions	\$ 250,118	
Deferred inflows of resources related to pensions	(138,487)	
Deferred outflows of resources related to OPEB	29,598	
Deferred inflows of resources related to OPEB	<u>(316,382)</u>	
		(175,153)
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (12,177)	
Payables	<u>12,177</u>	
		-
Long term revenue (taxes) is not available to pay current-period expenditures and therefore, is deferred in the governmental funds.		32,857
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		(13,345)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the governmental funds.		
Bond	\$ 840,000	
Compensated absences	48,334	
Other postemployment benefits	378,858	
Net pension liability	<u>1,232,004</u>	
		(2,499,196)
Net position of governmental activities (Exhibit A)		<u>\$ 8,352,101</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, 2018

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 1,233,153	\$ 22,300	\$ 1,255,453
Licenses and permits	729,086	-	729,086
Intergovernmental	305,309	-	305,309
Charges for services	10,592	101,782	112,374
Miscellaneous	43,241	44,918	88,159
Total revenues	<u>2,321,381</u>	<u>169,000</u>	<u>2,490,381</u>
EXPENDITURES			
Current:			
General government	806,492	-	806,492
Public safety	820,738	43,105	863,843
Highways and streets	464,585	-	464,585
Sanitation	197,912	-	197,912
Health	60,005	-	60,005
Welfare	4,539	-	4,539
Culture and recreation	190,871	31,516	222,387
Conservation	5,200	-	5,200
Debt service:			
Principal	120,000	-	120,000
Interest	34,870	-	34,870
Capital outlay	8,058	-	8,058
Total expenditures	<u>2,713,270</u>	<u>74,621</u>	<u>2,787,891</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(391,889)</u>	<u>94,379</u>	<u>(297,510)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	5,444	10,000	15,444
Transfers out	(10,000)	(5,444)	(15,444)
Total other financing sources (uses)	<u>(4,556)</u>	<u>4,556</u>	<u>-</u>
Net change in fund balances	(396,445)	98,935	(297,510)
Fund balances, beginning	1,774,394	920,280	2,694,674
Fund balances, ending	<u>\$ 1,377,949</u>	<u>\$ 1,019,215</u>	<u>\$ 2,397,164</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 - Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2018

Net change in fund balances of governmental funds (Exhibit C-3)		\$ (297,510)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures, while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:		
Capitalized capital outlay	\$ 179,062	
Depreciation expense	<u>(178,476)</u>	586
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	\$ (15,444)	
Transfers out	<u>15,444</u>	-
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds.		
Change in deferred tax revenue		(19,680)
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Repayment of bond principal		120,000
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	\$ 1,816	
Increase in compensated absences payable	(27,009)	
Net increase in net OPEB liability, and deferred outflows and inflows of resources related to OPEB	(363,288)	
Net decrease in net pension liability and deferred outflows and inflows related to pensions	<u>2,868</u>	(385,613)
Changes in net position of governmental activities (Exhibit B)		<u>\$ (582,217)</u>

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

EXHIBIT D
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Taxes	\$ 1,176,477	\$ 1,213,473	\$ 36,996
Licenses and permits	686,000	729,086	43,086
Intergovernmental	195,788	305,309	109,521
Charges for services	7,000	10,592	3,592
Miscellaneous	15,400	26,605	11,205
Total revenues	<u>2,080,665</u>	<u>2,285,065</u>	<u>204,400</u>
EXPENDITURES			
Current:			
General government	837,350	793,961	43,389
Public safety	867,765	815,472	52,293
Highways and streets	323,170	359,339	(36,169)
Sanitation	214,345	197,912	16,433
Health	64,105	59,005	5,100
Welfare	7,000	4,539	2,461
Culture and recreation	190,330	186,866	3,464
Conservation	5,200	5,200	-
Debt service:			
Principal	120,000	120,000	-
Interest	35,900	34,870	1,030
Capital outlay	10,000	2,526	7,474
Total expenditures	<u>2,675,165</u>	<u>2,579,690</u>	<u>95,475</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(594,500)</u>	<u>(294,625)</u>	<u>299,875</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	9,500	17,029	7,529
Transfers out	<u>(147,000)</u>	<u>(147,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(137,500)</u>	<u>(129,971)</u>	<u>7,529</u>
Net change in fund balances	<u>\$ (732,000)</u>	<u>(424,596)</u>	<u>\$ 307,404</u>
Unassigned fund balance, beginning		988,938	
Unassigned fund balance, ending		<u>\$ 564,342</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, 2018

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	\$ 97,962
Investments	<u>238,571</u>
Total assets	<u>\$ 336,533</u>
LIABILITIES	
Intergovernmental	238,571
Due to others	<u>97,962</u>
Total liabilities	<u>\$ 336,533</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, 2018

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TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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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, 2018

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 U.S. Generally Accepted Accounting Principles (GAAP) for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

In 2018 the Town implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which changed the way other postemployment benefit (OPEB) liabilities and related expenses are recorded. See Note 1-O for further information on this pronouncement.

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 three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital 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. 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
DECEMBER 31, 2018

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, debt service and capital outlay. 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 – are held in the custody of the Trustees of Trust Funds and are used to account for resources held in trust for use by the Town. These can include 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. The Town reports eight nonmajor governmental funds.

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. An agency fund is used to account for assets held on behalf of outside parties, including other governments. These funds are accounted for on a spending or “economic resources” measurement focus and the accrual basis of accounting.

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 a specific purpose.

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 applicable governmental activities column 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 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.

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.

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

Capital Asset Classes:	<u>Years</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 in accordance with RSA 76:15-a, *Semi-Annual Collection of Taxes in certain Towns and Cities*. Warrants for the year were issued on May 16, 2018 and November 2, 2018, and due on July 2, 2018 and December 11, 2018. 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, 2018 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 478,137,100
For all other taxes	\$ 484,432,000

The tax rates and amounts assessed for the year ended December 31, 2018 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$2.51	\$ 1,214,541
School portion:		
State of New Hampshire	\$2.07	991,718
Local	\$14.35	6,950,063
County portion	\$0.97	470,844
Total	<u>\$19.90</u>	<u>\$ 9,627,166</u>

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, 2018.

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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 outflows of resources consist of unrecognized items not yet charged to pension and OPEB expense and contributions from the Town after the measurement date but before the end of the Town's reporting period.

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. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within 60 days after year-end.

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

1-O Postemployment Benefits Other Than Pensions (OPEB)

The Town maintains two separate other postemployment benefit plans, as follows:

New Hampshire Retirement System Plan – For the purposes of measuring the total other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Hampshire Retirement System OPEB Plan (the plan) and additions to/deductions from the plan's fiduciary net position has been determined on the same basis as they are reported by the New Hampshire Retirement System. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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Town of Hampton Falls Single Employer Plan – For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information has been determined based on the Town's actuarial report. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms.

1-P Net Position/Fund Balances

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

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.

Restricted net position – Results when constraints placed on net position use are either externally imposed by a third party (statutory, bond covenant, or granting agency) or are imposed by law through constitutional provisions or enabling legislation. The Town typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a further project.

Unrestricted net position – Consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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 – 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 – 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 – 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 – 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 – Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

When multiple net position/fund balance classifications are available for use, it is the government's policy to utilize the most restricted balances first, then the next most restricted balance as needed. When components of unrestricted fund balance are used, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

In the general fund, the Town strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 5%-15% of operating revenues or 8%-17% of general fund operating expenditures.

1-Q Use of Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingent assets and liabilities at the date

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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 capital assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

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

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

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

State statutes require balanced budgets but provide for the use of beginning unassigned fund balance to achieve that end. For the fiscal year 2018, \$732,000 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)	\$ 2,302,094
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
To record miscellaneous income of the blended funds	16,636
To eliminate transfers between blended funds	(11,585)
Change in deferred tax revenue relating to 60-day revenue recognition	
recognized as revenue on the GAAP basis, but not on the budgetary basis	19,680
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,326,825</u>
	(Continued)

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Budgetary reconciliation to GAAP basis continued:

Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 2,726,690
Adjustment:	
Basis differences:	
Encumbrances, beginning	25,475
Encumbrances, ending	(11,643)
GASB Statement No. 54:	
To record expenditures of the blended funds during the year	119,748
To eliminate transfers between general and blended funds	(137,000)
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 2,723,270</u></u>

2-C Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. Beginning net position for governmental activities was restated to retroactively report the change in valuation of the beginning total OPEB liability, deferred inflows and outflows of resources, as follows:

	Local OPEB	State OPEB	Total OPEB
Change in total OPEB liability under current standards, January 1	\$ (100,146)	\$ (113,286)	\$ (213,432)
Initial balance of deferred outflows of resources	-	15,584	15,584
Initial balance of deferred inflows of resources	-	(357)	(357)
Cumulative restatement related to GASB No. 75 implementation (see Note 18)	<u><u>\$ (100,146)</u></u>	<u><u>\$ (98,059)</u></u>	<u><u>\$ (198,205)</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 \$4,386,743 and the bank balances totaled \$4,462,762. Petty cash totaled \$65.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 4,276,370
Cash per Statement of Net Position - Fiduciary Fund (Exhibit E)	97,962
Total cash and cash equivalents	<u><u>\$ 4,374,332</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	\$ 203,716
Heritage	6,994
Crimeline gift	2,525
Liberty elm tree	4,737
Total restricted cash and cash equivalents	<u>217,972</u>
Investments:	
General fund:	
Library	14,431
Capital reserve funds	571,091
Total restricted investments	<u>585,522</u>
Total restricted assets	<u><u>\$ 803,494</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, 2018:

	Valuation Measurement Method	Fair Value	Less Than 1 Year
Investments type:			
Certificates of deposit	Level 1	\$ 331,038	\$ 331,038
Stocks	Level 1	110,863	-
Bonds	Level 1	672,496	-
Equity mutual funds	Level 1	191,252	-
Total fair value		<u>\$ 1,305,649</u>	<u>\$ 331,038</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 not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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. The Town does not have custodial credit risk policies for investments.

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 1,067,078
Investments per Statement of Net Position - Fiduciary Funds (Exhibit E)	238,571
Total investments	<u><u>\$ 1,305,649</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, 2018. 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 2018	\$ 474,142	\$ 474,142
Unredeemed (under tax lien):		
Levy of 2017	59,691	59,691
Levy of 2016	33,050	33,050
Levies of 2015 and prior	18,191	18,191
Yield	211	211
Less: allowance for estimated uncollectible taxes	(35,000) *	-
Net taxes receivable	<u>\$ 550,285</u>	<u>\$ 585,285</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-B. However, the allowance is recognized under the full accrual basis of accounting (Exhibits A and B).

NOTE 7 – OTHER RECEIVABLES

Receivables at December 31, 2018, 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, 2018 for the Town's nonmajor funds in the aggregate including applicable allowances for uncollectible accounts are as follows:

	Nonmajor Funds
Receivables:	
Accounts	\$ 43,301
Less: allowance for uncollectibles	(16,417)
Net total receivables	<u>\$ 26,884</u>

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 is as follows:

	Balance, beginning	Additions	Deletions	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 4,697,036	\$ 11,600	\$ -	\$ 4,708,636
Being depreciated:				
Land improvements	17,216	-	-	17,216
Buildings and building improvements	1,649,634	-	-	1,649,634
Machinery, vehicles, and equipment	1,404,637	25,800	(35,581)	1,394,856
Infrastructure	3,080,293	141,662	-	3,221,955
Total capital assets being depreciated	<u>6,151,780</u>	<u>167,462</u>	<u>(35,581)</u>	<u>6,283,661</u>
Total all capital assets	<u>10,848,816</u>	<u>179,062</u>	<u>(35,581)</u>	<u>10,992,297</u>

(Continued)

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Capital assets continued:

	Balance, beginning	Additions	Deletions	Balance, ending
Less accumulated depreciation:				
Land improvements	(7,748)	(574)	-	(8,322)
Buildings and building improvements	(652,890)	(35,619)	-	(688,509)
Machinery, vehicles, and equipment	(728,370)	(65,276)	35,581	(758,065)
Infrastructure	(815,620)	(77,007)	-	(892,627)
Total accumulated depreciation	(2,204,628)	(178,476)	35,581	(2,347,523)
Net book value, capital assets being depreciated	3,947,152	(11,014)	-	3,936,138
Net book value, all governmental activities capital assets	<u>\$ 8,644,188</u>	<u>\$ 586</u>	<u>\$ -</u>	<u>\$ 8,644,774</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:

Governmental activities:

General government	\$ 4,728
Public safety	80,939
Highways and streets	76,389
Culture and recreation	16,420
Total depreciation expense	<u>\$ 178,476</u>

NOTE 9 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2018 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor	\$ 2,452
Nonmajor	General	2,596
Nonmajor	Nonmajor	7,129
		<u>\$ 12,177</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, 2018 is as follows:

	Transfers In:		
	General Fund	Nonmajor Fund	Total
Transfers out:			
General fund	\$ -	\$ 10,000	\$ 10,000
Nonmajor fund	5,444	-	5,444
Total	<u>\$ 5,444</u>	<u>\$ 10,000</u>	<u>\$ 15,444</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 \$3,734,487 at December 31, 2018 consist of the following:

General fund:	
Balance of the 2018-19 school district assessment due to:	
Hampton Falls School District	\$ 2,782,133
Winnacunnet Cooperative School District	713,783
Total general fund	<u>3,495,916</u>
Agency fund:	
Balance of expendable trust funds due to the Hampton Falls School District	<u>238,571</u>
Total intergovernmental payables due	<u><u>\$ 3,734,487</u></u>

NOTE 11 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows and inflows of resources of at December 31, 2018 consist of amounts related to pensions totaling \$250,118 and \$138,487, respectively, and amounts related to OPEB totaling \$29,598 and \$316,382 respectively. For further discussion on these amounts, see Notes 13 and 14 respectively.

Deferred inflows of resources of \$33,467 reported in the governmental funds consist of \$610 related to donations received in advance of eligible expenditures being made and \$32,857 in property taxes not collected with 60 days of the fiscal year-end.

NOTE 12 – LONG-TERM LIABILITIES

Changes in the Town's long-term liabilities consisted of the following for the year ended December 31, 2018:

	Balance January 1, 2018 (as restated)	Additions	Reductions	Balance December 31, 2018	Due Within One Year
General obligation bond	\$ 960,000	\$ -	\$ (120,000)	\$ 840,000	\$ 120,000
Compensated absences	21,325	27,009	-	48,334	-
Net other postemployment benefits	317,581	61,277	-	378,858	-
Pension related liability	1,328,064	-	(96,060)	1,232,004	-
Total long-term liabilities	<u>\$ 2,626,970</u>	<u>\$ 88,286</u>	<u>\$ (216,060)</u>	<u>\$ 2,499,196</u>	<u>\$ 120,000</u>

The long-term bond is comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2018	Current Portion
General obligation bond payable:						
2010 refunding bond	\$ 2,115,000	2010	2025	3.96%	<u>\$ 840,000</u>	<u>\$ 120,000</u>

The annual requirements to amortize the general obligation bond outstanding as of December 31, 2018, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
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	120,000	15,900	135,900
2024-2028	240,000	16,050	256,050
Totals	<u>\$ 840,000</u>	<u>\$ 146,520</u>	<u>\$ 986,520</u>

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

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NOTE 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 $\frac{1}{4}$ of 1% or age 60.

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

Contributions - The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 7% of earnable compensation. For fiscal year 2018, the Town contributed 25.33% for police, 27.79% for fire and 11.08% for other employees. The contribution requirement for the fiscal year 2018 was \$114,073, which was paid in full.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions – At December 31, 2018 the Town reported a liability of \$1,232,004 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the Town's proportion was 0.03% which was a decrease of 0.001% from its proportion measured as of June 30, 2017.

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For the year ended December 31, 2018, the Town recognized pension expense of \$105,911. At December 31, 2018 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	\$ 93,644	\$ 100,001
Changes in assumptions	85,261	-
Net difference between projected and actual investment earnings on pension plan investments	-	28,510
Differences between expected and actual experience	9,834	9,976
Contributions subsequent to the measurement date	61,379	-
Total	<u>\$ 250,118</u>	<u>\$ 138,487</u>

The \$61,379 reported as deferred outflows of resources related to pensions results from the Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. 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,	
2019	\$ 37,143
2020	36,585
2021	(8,397)
2022	(15,079)
Thereafter	-
Totals	<u>\$ 50,252</u>

Actuarial Assumptions – The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2017, using the following actuarial assumptions which, accordingly apply to 2018 measurements:

Inflation:	2.5%
Salary increases:	5.6% average, including inflation
Wage inflation	3.25%
Investment rate of return:	7.25% net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

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

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Following is a table presenting target allocations and long-term rates of return for 2018:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return
		2018
Large Cap Equities	22.50%	4.25%
Small/Mid Cap Equities	7.50%	4.50%
Total domestic equity	30.00%	
Int'l Equities (unhedged)	13.00%	4.50%
Emerging Int'l Equities	7.00%	6.00%
Total international equity	20.00%	
Core Bonds	4.50%	0.50%
Short Duration	2.50%	(0.25%)
Global Multi-Sector Fixed Income	11.00%	1.80%
Absolute Return Fixed Income	7.00%	1.14%
Total fixed income	25.00%	
Private equity	5.00%	6.25%
Private debt	5.00%	4.25%
Opportunistic	5.00%	2.15%
Total alternative investments	15.00%	
Real estate	10.00%	3.25%
Total	100.00%	

Discount Rate – The discount rate used to measure the collective total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the Pension Plan's actuarial funding policy as required by RSA 100-A:16. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on Pension Plan investment was applied to all periods of projected benefit payments to determine the collective total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following table presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25% as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
June 30, 2018	\$ 1,639,192	\$ 1,232,004	\$ 890,769

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.

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NOTE 14 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

14-A New Hampshire Retirement System (NHRS)

Plan Description – The New Hampshire Retirement System (NHRS or the System) administers a cost-sharing multiple-employer other postemployment benefit plan medical subsidy healthcare plan (OPEB Plan). For additional system information, please refer to the 2018 Comprehensive Annual Financial Report, which can be found on the system’s website at www.nhrs.org.

Benefits Provide - Benefit amounts and eligibility requirements for the OPEB Plan are set by state law (RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b), and members are designated in statute by type. The four membership types are Group II, Police Officers and Firefighters; Group I, Teachers; Group I, Political Subdivision Employees; and Group I, State Employees. The OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical insurance subsidy is a payment made by NHRS to the former employer or its insurance administrator toward the cost of health insurance for a qualified retiree, his/her qualified spouse, and his/her certified dependent children with a disability who are living in the household and being cared for by the retiree. If the health insurance premium amount is less than the medical subsidy amount, then only the health insurance premium amount will be paid. If the health insurance premium amount exceeds the medical subsidy amount, then the retiree or other qualified person is responsible for paying any portion that the employer does not pay.

Group I benefits are based on creditable service, age and retirement date. Group II benefits are based on hire date, age and creditable service. The OPEB plan is closed to new entrants.

Maximum medical subsidy rates paid during fiscal year 2018 were as follows:

For qualified retirees not eligible for Medicare, the amounts were \$375.56 for a single-person plan and \$751.12 for a two-person plan.

For those qualified retirees eligible for Medicare, the amounts were \$236.84 for a single-person plan and \$473.68 for a two-person plan.

Contributions – The OPEB Plan is funded by allocating to the 401(h) subtrust the lesser of: 25% of all employer contributions made in accordance with RSA 100-A:16 or the percentage of employer contributions determined by the actuary to be the minimum rate necessary to maintain the benefits provided under RSA 100-A:53-b, RSA 100-A:53-c, and RSA 100-A:53-d. For fiscal year 2018, the minimum rates determined by the actuary to maintain benefits were the lesser of the two options and were used to determine the employer contributions due to the 401(h) subtrust. The State Legislature has the authority to establish, amend and discontinue the contribution requirements of the OPEB Plan. Administrative costs are allocated to the OPEB Plan based on fund balances. For fiscal year 2018, the Town contributed 4.10% for police and fire, and 0.30% for other employees. The contribution requirement for the fiscal year 2018 was \$16,754, which was paid in full.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At December 31, 2018, the Town reported a liability of \$159,050 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Town’s proportion of the net OPEB liability was based on a projection of the Town’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2018, the Town’s proportion was 0.03% which was an increase of 0.01% from its proportion measured as of June 30, 2017.

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For the year ended December 31, 2018, the Town recognized OPEB expense of \$56,689. At December 31, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 9,695	\$ -
Net difference between projected and actual investment earnings on OPEB plan investments	-	505
Differences between expected and actual experience	934	-
Contributions subsequent to the measurement date	8,848	-
Total	<u>\$ 19,477</u>	<u>\$ 505</u>

The \$8,848 reported as deferred outflows of resources related to OPEB results from the Town contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending December 31,	
2019	\$ 10,471
2020	(158)
2021	(158)
2022	(31)
Thereafter	-
Totals	<u>\$ 10,124</u>

Actuarial Assumptions – The total OPEB liability in this report is based on an actuarial valuation performed as of June 30, 2018 and a measurement date of June 30, 2017. The total OPEB liability was determined using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Price inflation:	2.5 % per year
Wage inflation:	3.25 % per year
Salary increases:	5.6 % average, including inflation
Investment rate of return:	7.25 % net of OPEB plan investment expense, including inflation
Health care trend rate:	Not applicable, given that the benefits are fixed stipends

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

The actuarial assumptions used in the June 30, 2017 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 OPEB plan investment was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return net of investment expenses by the target asset allocation percentage and by adding expected inflation.

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Following is a table presenting target allocations and long-term rates of return for 2018:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return
		2018
Large Cap Equities	22.50%	4.25%
Small/Mid Cap Equities	7.50%	4.50%
Total domestic equity	30.00%	
Int'l Equities (unhedged)	13.00%	4.50%
Emerging Int'l Equities	7.00%	6.00%
Total international equity	20.00%	
Core Bonds	4.50%	0.50%
Short Duration	2.50%	(0.25%)
Global Multi-Sector Fixed Income	11.00%	1.80%
Absolute Return Fixed Income	7.00%	1.14%
Total fixed income	25.00%	
Private equity	5.00%	6.25%
Private debt	5.00%	4.25%
Opportunistic	5.00%	2.15%
Total alternative investments	15.00%	
Real estate	10.00%	3.25%
Total	100.00%	

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2018 was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made under the current statute RSA 100-A:16 and that plan member contributions will be made under RSA 100-A:16. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the collective total OPEB liability.

Sensitivity of the Town's Proportionate Share of the OPEB Liability to Changes in the Discount Rate – The following table presents the Town's proportionate share of the OPEB liability calculated using the discount rate of 7.25% as well as what the Town's proportionate share of the OPEB 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, 2018	\$ 165,540	\$ 159,050	\$ 140,871

Sensitivity of the Town's Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Assumption – GASB No. 75 requires the sensitivity of the OPEB liability to the healthcare cost trend assumption. Since the medical subsidy benefits are fixed stipends, there is no sensitivity to changes in the healthcare cost trend assumption.

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

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14-B Town of Hampton Falls Retiree Health Benefit Program

Plan Description – GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires governments to account for other postemployment benefits (OPEB) on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially determined expense on the Statement of Activities when a future retiree earns their postemployment benefits, rather than when they use their postemployment benefit. The postemployment benefit liability is recognized on the Statement of Net Position over time.

Benefits Provided – The Town provides postemployment healthcare benefits for certain eligible retirees. The Town provides medical benefits to its eligible retirees. The benefits are provided through the New Hampshire Inter-Local Trust.

Employees Covered by Benefit Terms – At January 1, 2018, seven active employees were covered by the benefit terms.

Total OPEB Liability – The Town's total OPEB liability of \$219,808 was measured as of January 1, 2018 and was determined by an actuarial valuation of that date.

Actuarial Assumptions and Other Inputs – The total OPEB liability of \$219,808 in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate:	3.44%
Healthcare Cost Trend Rates:	
Current Year Trend	10.50%
Second Year Trend	9.50%
Decrement	0.50%
Ultimate Trend	5.00%
Year Ultimate Trend is Reached	2028
Salary Increases:	1.32%

The discount rate was based on the index provided by *Bond Buyer 20-Bond General Obligation Index* based on the 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of January 1, 2018.

Mortality assumption changed from RP-2000 Projected 10 years using Projection Scale AA to SOA RP-2014 Total Dataset Mortality with Scale MP-2017.

Changes in the Total OPEB Liability

	December 31,	
	2017	2018
OPEB liability beginning of year	\$ 520,589	\$ 204,295
Changes for the year:		
Service cost	12,076	14,486
Interest	20,784	7,012
Assumption changes	11,601	-
Difference between actual and expected experience	(356,253)	(5,067)
Change in actuarial cost method	(2,516)	-
Benefit payments	(1,986)	(918)
OPEB liability end of year	<u>\$ 204,295</u>	<u>\$ 219,808</u>

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Sensitivity of the Town's OPEB Liability to Changes in the Discount Rate – The January 1, 2018 actuarial valuation was prepared using a discount rate of 3.44%. If the discount rate were 1% higher than what was used the OPEB liability would decrease to \$141,527 or by 35.61%. If the discount rate were 1% lower than what was used the OPEB liability would decrease to \$168,723 or by 23.24%.

	Discount Rate		
	1% Decrease	Baseline 3.44%	1% Increase
Total OPEB Liability	\$ 168,723	\$ 219,808	\$ 141,527

Sensitivity of the Town's OPEB Liability to Changes in the Healthcare Cost Trend Rates – The January 1, 2018 actuarial valuation was prepared using an initial trend rate of 10.50%. If the trend rate were 1% higher than what was used the OPEB liability would increase to \$244,201 or by 11.10%. If the trend rate were 1% lower than what was used the OPEB liability would decrease to \$198,413 or by 9.73%.

	Healthcare Cost Trend Rates		
	1% Decrease	Baseline 10.50%	1% Increase
Total OPEB Liability	\$ 198,413	\$ 219,808	\$ 244,201

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB – For the year ended December 31, 2018, the Town recognized OPEB expense of \$22,465. At December 31, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 315,877
Differences between expected and actual experience	10,121	-
Total	\$ 10,121	\$ 315,877

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending December 31,	
2019	\$ (43,963)
2020	(43,963)
2021	(43,963)
2022	(43,963)
2023	(129,904)
Thereafter	-
Totals	\$ (305,756)

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, 2018 and are as follows:

General fund:	
General government	\$ 4,700
Health	5,000
Capital outlay	1,943
Total encumbrances	\$ 11,643

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NOTE 16 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the Statement of Net Position at December 31, 2018 include the following:

	Governmental Activities
Net investment in capital assets:	
Net book value, all capital assets	\$ 8,644,774
Less:	
General obligation bond payable	(840,000)
Total net investment in capital assets	<u>7,804,774</u>
Restricted net position:	
Perpetual care - nonexpendable	132,315
Perpetual care - expendable	18,203
Total restricted net position	<u>150,518</u>
Unrestricted	396,809
Total net position	<u><u>\$ 8,352,101</u></u>

NOTE 17 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2018 include the following:

	General Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable:			
Permanent fund - principal balance	\$ -	\$ 132,315	\$ 132,315
Restricted:			
Library	218,147	-	218,147
Crimeline gift	2,525	-	2,525
Liberty elm tree	4,737	-	4,737
Permanent - income balance	-	18,203	18,203
Total restricted fund balance	<u>225,409</u>	<u>18,203</u>	<u>243,612</u>
Committed:			
Expendable trust	566,730	-	566,730
Heritage	7,682	-	7,682
Conservation commission	-	393,121	393,121
Fire department vehicle	-	301,014	301,014
Recreation	-	20,514	20,514
Fire detail	-	11,389	11,389
Police detail	-	75,743	75,743
Town communication	-	58,636	58,636
Total committed fund balance	<u>574,412</u>	<u>860,417</u>	<u>1,434,829</u>
Assigned:			
Encumbrances	11,643	-	11,643
All other	-	8,280	8,280
Total assigned fund balance	<u>11,643</u>	<u>8,280</u>	<u>19,923</u>
Unassigned	<u>566,485</u>	<u>-</u>	<u>566,485</u>
Total governmental fund balances	<u><u>\$ 1,377,949</u></u>	<u><u>\$ 1,019,215</u></u>	<u><u>\$ 2,397,164</u></u>

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NOTE 18 – PRIOR PERIOD ADJUSTMENT

Net position at January 1, 2018 was restated to give retroactive effect to the following prior period adjustment:

	Government-wide Statements
To restate for the cumulative changes related to implementation of GASB No. 75, see Note 2-C	\$ (198,205)
Net position, as previously reported	9,132,523
Net position, as restated	<u>\$ 8,934,318</u>

NOTE 19 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2018, the Town was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from January 1, 2018 to December 31, 2018 by Primex³, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The workers' compensation section of the self-insurance membership agreement permits Primex³ to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex³ foresees no likelihood of any additional assessment for this or any prior year.

The Town continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 20 – 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 2018 were \$218,153 and there was no amount owed to or from the company at year-end.

NOTE 21 – 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 22 – TAX ABATEMENTS

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

The Town had no such agreements in place for the year ended December 31, 2018.

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

NOTE 23 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through April 25, 2019, the date the December 31, 2018 financial statements were available to be issued, and the following was noted:

On January 23, 2019 the Town held a public hearing regarding an emergency over expenditure relating to the culvert on Drinkwater Road. The Town received approval for the emergency expenditures from the NH Department of Revenue Administration. The anticipated amount of the over expenditures is \$100,000 and the funding source is unassigned fund balance.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT F
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Schedule of the Town's Proportionate Share of Net Pension Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,					
	2013	2014	2015	2016	2017	2018
Town's proportion of the net pension liability	0.03%	0.03%	0.03%	0.02%	0.03%	0.03%
Town's proportionate share of the net pension liability	\$ 1,195,148	\$993,045	\$ 993,773	\$ 1,246,285	\$ 1,328,064	\$ 1,232,004
Town's covered payroll	\$ 507,692	\$450,362	\$ 433,675	\$ 395,224	\$ 492,376	\$ 489,449
Town's proportionate share of the net pension liability as a percentage of its covered payroll	235.41%	220.50%	229.15%	315.34%	269.73%	251.71%
Plan fiduciary net position as a percentage of the total pension liability	59.81%	66.32%	65.47%	58.30%	62.66%	64.73%

The Note to the Required Supplementary Information – Pension Liability is an integral part of this schedule.

EXHIBIT G
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Schedule of Town Contributions - Pensions
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,					
	2013	2014	2015	2016	2017	2018
Contractually required contribution	\$ 69,050	\$ 85,829	\$ 84,159	\$ 83,923	\$ 98,928	\$ 108,140
Contributions in relation to the contractually required contributions	69,050	85,829	84,159	83,923	98,928	108,140
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered payroll	\$ 507,692	\$ 450,362	\$ 433,675	\$ 395,224	\$ 492,376	\$ 489,449
Contributions as a percentage of covered payroll	13.60%	19.06%	19.41%	21.23%	20.09%	22.09%

The Note to the Required Supplementary Information – Pension Liability is an integral part of this schedule.

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE

**NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION –
PENSION LIABILITY**

**FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018**

***Schedule of the Town's Proportionate Share of Net Pension Liability
and Schedule of Town Contributions - Pensions***

As required by GASB Statement No. 68, and as amended by GASB Statement No. 71, Exhibits F and G represent the actuarial determined costs associated with the Town's pension plan at December 31, 2018. These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2018:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	21 years beginning July 1, 2018 (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	3.62% per year
Investment Rate of Return	7.25% per year, net of investment expenses, including inflation
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 table for males and females, adjusted for mortality improvements using Scale MP -2015, based in the last experience study.

Other Information:

Notes	Contribution rates for fiscal year 2018 were determined based on the benefit changes adopted under House Bill No. 2 as amended by 011-2513-CofC.
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EXHIBIT H
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Schedule of the Town's Proportionate Share of the Net Other Postemployment Benefit Plan Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Other Postemployment Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,		
	2016	2017	2018
Town's proportion of the net OPEB liability	0.02%	0.02%	0.03%
Town's proportionate share of the net OPEB liability (asset)	\$ 99,844	\$ 113,286	\$ 159,050
Town's covered payroll	\$ 395,224	\$ 492,376	\$ 489,449
Town's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	25.26%	23.01%	32.50%
Plan fiduciary net position as a percentage of the total OPEB liability	5.21%	7.91%	7.53%

The Notes to the Required Supplementary Information – Other Postemployment Benefit Liability is an integral part of this schedule.

EXHIBIT I
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Schedule of Town Contributions - Other Postemployment Benefits
New Hampshire Retirement System Cost Sharing Multiple Employer Other Postemployment Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,		
	2016	2017	2018
Contractually required contribution	\$ 14,685	\$ 11,984	\$ 15,366
Contributions in relation to the contractually required contribution	14,685	11,984	15,366
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Town's covered payroll	\$ 395,224	\$ 492,376	\$ 489,449
Contributions as a percentage of covered payroll	3.72%	2.43%	3.14%

The Notes to the Required Supplementary Information – Other Postemployment Benefit Liability is an integral part of this schedule.

EXHIBIT J
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Schedule of Changes in the Town's Total Other Postemployment Benefits Liability and Related Ratios
Town of Hampton Falls Single Employer Retiree Health Benefit Program
For the Fiscal Year Ended December 31, 2018

	December 31,	
	2017	2018
OPEB liability, beginning of year	\$ 520,589	\$ 204,295
Changes for the year:		
Service cost	12,076	14,486
Interest	20,784	7,012
Assumption changes	11,601	-
Difference between actual and expected experience	(356,253)	(5,067)
Change in actuarial cost method	(2,516)	-
Benefit payments	(1,986)	(918)
OPEB liability, end of year	\$ 204,295	\$ 219,808
Covered payroll	\$ 337,534	\$ 472,020
Total OPEB liability as a percentage of covered payroll	60.53%	46.57%

The Notes to the Required Supplementary Information – Other Postemployment Benefit Liability is an integral part of this schedule.

TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –
OTHER POSTEMPLOYMENT BENEFIT LIABILITY
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

***Schedule of the Town's Proportionate Share of Net Other Postemployment Benefits Liability
and Schedule of Town Contributions – Other Postemployment Benefits***

As required by GASB Statement No. 75, Exhibits H and I represent the actuarial determined costs associated with the Town's other postemployment benefits at December 31, 2018. These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

There were no changes to benefit terms or assumptions in the current actuarial valuation report.

Methods and Assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	Not applicable under statutory funding
Asset Valuation Method	5-year smooth market: 20% corridor
Price Inflation	2.5% per year
Wage Inflation	3.25% per year
Salary Increases	5.6% Average, including inflation
Municipal Bond Rate	3.62% per year
Investment Rate of Return	7.25% per year, net of OPEB plan investment expense, including inflation for determining solvency contributions
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 Healthy Annuitant and Employee generational mortality tables for males and females with credibility adjustments, adjusted for fully generational mortality improvements using Scale MP-2015, based on the last experience study.

Schedule of Changes in Town's Total Other Postemployment Benefits Liability and Related Ratios

As required by GASB Statement No. 75, Exhibit J represents the actuarial determined costs associated with the Town's other postemployment benefits at December 31, 2018. The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for 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, 2018

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 1,131,077	\$ 1,151,542	\$ 20,465
Land use change	100	-	(100)
Yield	300	938	638
Payment in lieu of taxes	15,000	14,988	(12)
Interest and penalties on taxes	30,000	46,005	16,005
Total from taxes	<u>1,176,477</u>	<u>1,213,473</u>	<u>36,996</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	2,000	2,420	420
Motor vehicle permit fees	650,000	676,074	26,074
Building permits	20,000	35,631	15,631
Other	14,000	14,961	961
Total from licenses, permits, and fees	<u>686,000</u>	<u>729,086</u>	<u>43,086</u>
Intergovernmental:			
State:			
Meals and rooms distribution	117,647	117,647	-
Highway block grant	69,641	127,699	58,058
Other	8,500	17,711	9,211
Federal:			
FEMA	-	33,867	33,867
Other	-	8,385	8,385
Total from intergovernmental	<u>195,788</u>	<u>305,309</u>	<u>109,521</u>
Charges for services:			
Income from departments	<u>7,000</u>	<u>10,592</u>	<u>3,592</u>
Miscellaneous:			
Sale of municipal property	100	1,500	1,400
Interest on investments	15,000	21,027	6,027
Other	<u>300</u>	<u>4,078</u>	<u>3,778</u>
Total from miscellaneous	<u>15,400</u>	<u>26,605</u>	<u>11,205</u>
Other financing sources:			
Transfers in	<u>9,500</u>	<u>17,029</u>	<u>7,529</u>
Total revenues and other financing sources	2,090,165	<u>\$ 2,302,094</u>	<u>\$ 211,929</u>
Unassigned fund balance used to reduce tax rate	732,000		
Total revenues, other financing sources, and use of fund balance	<u>\$ 2,822,165</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, 2018

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	112,320	108,143	\$ -	\$ 4,177
Election and registration	-	69,490	63,059	-	6,431
Financial administration	1,000	149,240	136,339	4,700	9,201
Legal	-	17,000	19,912	-	(2,912)
Personnel administration	-	320,900	312,682	-	8,218
Planning and zoning	-	38,485	35,271	-	3,214
General government buildings	-	50,665	49,233	-	1,432
Cemeteries	-	26,250	14,642	-	11,608
Insurance, not otherwise allocated	-	29,000	27,761	-	1,239
Other	11,000	24,000	34,219	-	781
Total general government	12,000	837,350	801,261	4,700	43,389
Public safety:					
Police	-	519,200	472,562	-	46,638
Ambulance	-	89,250	89,052	-	198
Fire	-	196,945	196,859	-	86
Building inspection	-	42,470	39,038	-	3,432
Emergency management	-	12,400	12,379	-	21
Other	-	7,500	5,582	-	1,918
Total public safety	-	867,765	815,472	-	52,293
Highways and streets:					
Highways and streets	-	319,170	355,382	-	(36,212)
Street lighting	-	4,000	3,957	-	43
Total highways and streets	-	323,170	359,339	-	(36,169)
Sanitation:					
Solid waste collection	-	155,620	153,998	-	1,622
Solid waste disposal	-	58,725	43,914	-	14,811
Total sanitation	-	214,345	197,912	-	16,433
Health:					
Administration	-	7,540	7,982	-	(442)
Pest control	6,000	32,720	28,178	5,000	5,542
Health agencies	-	23,845	23,845	-	-
Total health	6,000	64,105	60,005	5,000	5,100
Welfare:					
Administration and direct assistance	-	7,000	4,539	-	2,461
Culture and recreation:					
Parks and recreation	-	25,350	17,201	-	8,149
Library	-	164,380	169,265	-	(4,885)
Patriotic purposes	-	600	400	-	200
Total culture and recreation	-	190,330	186,866	-	3,464
Conservation	-	5,200	5,200	-	-
Debt service:					
Principal of long-term debt	-	120,000	120,000	-	-
Interest on long-term debt	-	34,900	34,870	-	30
Interest on tax anticipation notes	-	1,000	-	-	1,000
Total debt service	-	155,900	154,870	-	1,030

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, 2018

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Capital outlay	7,475	10,000	8,058	1,943	7,474
Other financing uses:					
Transfers out	-	147,000	147,000	-	-
Total appropriations, expenditures, other financing uses, and encumbrances	\$ 25,475	\$ 2,822,165	\$ 2,740,522	\$ 11,643	\$ 95,475

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, 2018

Unassigned fund balance, beginning (Non-GAAP Budgetary Basis)		\$ 988,938
Changes:		
Unassigned fund balance used to reduce 2018 tax rate		(732,000)
2018 Budget summary:		
Revenue surplus	\$ 211,929	
Unexpended balance of appropriations	95,475	
2018 Budget surplus		<u>307,404</u>
Unassigned fund balance, ending (Non-GAAP Budgetary Basis)		564,342
Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis:		
To record deferred property taxes not collected within 60 days of the fiscal year-end, not recognized on a budgetary basis		(32,857)
Elimination of the allowance for uncollectible taxes		<u>35,000</u>
Unassigned fund balance, ending, GAAP basis		<u><u>\$ 566,485</u></u>

SCHEDULE 4
TOWN OF HAMPTON FALLS, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2018

	Special Revenue Funds								Total
	Conservation Commission	Fire Department Vehicle	Recreation	Fire Detail	Police Detail	All Other	Town Communications	Permanent Fund	
ASSETS									
Cash and cash equivalents	59,487	\$ 287,641	\$ 20,514	\$ 4,260	\$ 71,813	\$ 8,280	\$ 58,636	\$ -	\$ 510,631
Investments	331,038	-	-	-	-	-	-	150,518	481,556
Accounts receivable, net of allowance for uncollectable	-	21,114	-	-	5,770	-	-	-	26,884
Interfund receivable	2,596	-	-	7,129	-	-	-	-	9,725
Total assets	<u>\$ 393,121</u>	<u>\$ 308,755</u>	<u>\$ 20,514</u>	<u>\$ 11,389</u>	<u>\$ 77,583</u>	<u>\$ 8,280</u>	<u>\$ 58,636</u>	<u>\$ 150,518</u>	<u>\$ 1,028,796</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Interfund payable	\$ -	\$ 7,741	\$ -	\$ -	\$ 1,840	\$ -	\$ -	\$ -	\$ 9,581
Fund balances:									
Nonspendable	-	-	-	-	-	-	-	132,315	132,315
Restricted	-	-	-	-	-	-	-	18,203	18,203
Committed	393,121	301,014	20,514	11,389	75,743	-	58,636	-	860,417
Assigned	-	-	-	-	-	8,280	-	-	8,280
Total fund balances	<u>393,121</u>	<u>301,014</u>	<u>20,514</u>	<u>11,389</u>	<u>75,743</u>	<u>8,280</u>	<u>58,636</u>	<u>150,518</u>	<u>1,019,215</u>
Total liabilities and fund balances	<u>\$ 393,121</u>	<u>\$ 308,755</u>	<u>\$ 20,514</u>	<u>\$ 11,389</u>	<u>\$ 77,583</u>	<u>\$ 8,280</u>	<u>\$ 58,636</u>	<u>\$ 150,518</u>	<u>\$ 1,028,796</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, 2018

Special Revenue Funds									
	Conservation Commission	Fire Department Vehicle	Recreation	Fire Detail	Police Detail	All Other	Town Communications	Permanent Fund	Total
Revenues:									
Taxes	\$ 22,300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,300
Charges for services	-	52,783	13,488	1,322	34,189	-	-	-	101,782
Miscellaneous	7,091	3,846	361	72	1,204	2,909	33,352	(3,917)	44,918
Total revenues	29,391	56,629	13,849	1,394	35,393	2,909	33,352	(3,917)	169,000
Expenditures:									
Current:									
Public safety	-	3,921	-	1,752	37,432	-	-	-	43,105
Culture and recreation	-	-	29,578	-	-	1,938	-	-	31,516
Total expenditures	-	3,921	29,578	1,752	37,432	1,938	-	-	74,621
Excess (deficiency) of revenues over (under) expenditures	29,391	52,708	(15,729)	(358)	(2,039)	971	33,352	(3,917)	94,379
Other financing sources (uses):									
Transfers in	10,000	-	-	-	-	-	-	-	10,000
Transfers out	-	-	-	-	-	-	-	(5,444)	(5,444)
Total other financing sources (uses)	10,000	-	-	-	-	-	-	(5,444)	4,556
Net change in fund balances	39,391	52,708	(15,729)	(358)	(2,039)	971	33,352	(9,361)	98,935
Fund balances, beginning	353,730	248,306	36,243	11,747	77,782	7,309	25,284	159,879	920,280
Fund balances, ending	\$ 393,121	\$ 301,014	\$ 20,514	\$ 11,389	\$ 75,743	\$ 8,280	\$ 58,636	\$ 150,518	\$ 1,019,215



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX 603-224-1380

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, 2018, 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 significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and 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 trusts) it was determined that accounts are not being properly reconciled and maintained. Key accounting tasks such as monthly reconciliations play a key role in proving the accuracy of accounting data and information included in interim financial statements. The various other funds and accounts are not at all times aware of what is owed to and/or from the general fund. We recommend that the Town establish more effective review and reconciliation policies and procedures as a customary part of the accounting process. Particular attention should be given to interfund receivables and payable accounts.

Cash Reconciliations

The accounting department is not completing a monthly cash reconciliation of the general ledger cash balance to the bank. There is therefore no way to accurately reconcile the general ledger cash balance to the Treasurer's cash balance. It was also noted 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. The Town's general ledger cash balance should agree to the Treasurer's cash balance on a monthly basis. By not completing their own reconciliation it makes the process of reconciling to the Treasurer difficult. This lack of reconciliation can lead to activity that is missing or inaccurate in the general ledger. For example, funds were deposited into the general fund and then transferred to a special fund by the Treasurer but were never recorded as being paid out in the general ledger. We recommend that the accounting department reconcile the general ledger cash balance to the bank monthly and that this reconciliation be tied to the Treasurer's reconciliation each month.

Town of Hampton Falls

Independent Auditor's Communication of Material Weaknesses and Significant Deficiency

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:

Other Special Funds

There are several Town funds that are not being recorded in the Town's general ledger. The Treasurer is maintaining these funds in QuickBooks and deposits and disbursements are not being processed through the internal controls and procedures approved by the Board of Selectmen. All of the Town's funds should be tracked in the general ledger and processed through the same procedures as the general fund in order to provide accurate reporting on amounts. We recommend that the Town consider adding the other special funds to the general ledger system as their own unique fund. Once added activity in those funds should be recorded and processed through the same procedures as the general fund.

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.

April 25, 2019

*Plodzik & Sanderson
Professional Association*