NORTH HAMPTON, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2013

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MH&Co

MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
North Hampton, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of North Hampton, New Hampshire, as of and for the year ended June 30, 2013, 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

The Town's 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

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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, each major fund, and the aggregate remaining fund information of the Town of North Hampton, New Hampshire, as of June 30, 2013, and the respective changes in financial position, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and Schedule of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
January 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of North Hampton, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013. Unless otherwise noted, all amounts are expressed in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues. The governmental activities include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available

at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by $9,808 (i.e., net position), a change of $297 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of $4,050, a change of $20 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was $898, a change of $(54) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was $3,754, a change of $(191) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	Governmental Activities	
	2013	2012
Current and other assets	$ 12,650	$ 12,415
Capital assets	10,780	10,671
Total assets	23,430	23,086
Long-term liabilities outstanding	4,910	5,107
Other liabilities	8,712	8,468
Total liabilities	13,622	13,575
Net position:		
Invested in capital assets, net	6,779	6,478
Restricted	1,709	1,643
Unrestricted	1,320	1,390
Total net position	$ 9,808	$ 9,511

CHANGES IN NET POSITION

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	$ 436	$ 457
Operating grants and contributions	32	70
General revenues:		
Property taxes	4,547	4,613
Motor vehicle permits and fees	1,109	1,072
Grants and contributions not restricted to specific programs	277	291
Investment income	11	33
Other	79	29
Total revenues	6,491	6,565

(continued)

(continued)

	Governmental Activities	
	2013	2012
Expenses:		
General government	1,461	1,440
Public safety	2,888	2,759
Public works	914	821
Sanitation	117	130
Health and welfare	84	89
Culture and recreation	562	539
Conservation	11	5
Interest on long-term debt	157	189
Total expenses	6,194	5,972
Change in net position	297	593
Net position - beginning of year	9,511	8,918
Net position - end of year	$ 9,808	$ 9,511

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was $9,808, a change of $297 from the prior year.

The largest portion of net position $6,779 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position $1,708 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position $1,320 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net position of $297. Key elements of this change are as follows:

General fund expenditures and transfers out in excess of revenues and transfers in	$ (65)
Special revenue fund revenues and transfers in in excess of expenditures and transfers out	54
Trust fund revenues over expenditures	31
Principal debt service in excess of depreciation expense	51
Change in net OPEB obligation	(13)
Increase in capital assets from existing resources	257
Other	(18)
Total	$ 297

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of $4,050, a change of $20 in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures and transfers out in excess of revenues and transfers in	$ (65)
Special revenue fund revenues and transfers in in excess of expenditures and transfers out	54
Trust fund revenues over expenditures	31
Total	$ 20

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was $898, while total fund balance was $2,437. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

General Fund	6/30/13	6/30/12	Change	% of Total General Fund Expenditures[1]
Unassigned fund balance	$ 898	$ 952	$ (54)	15.4%
Total fund balance	2,437	2,502	(65)	41.8%

[1] Excludes School District Expenditures.

The total fund balance of the general fund changed by $(65) during the current fiscal year. Key factors in this change are as follows:

Use of fund balances as a funding source	$ (35)
Revenues and transfers greater than budget	32
Expenditures and transfers less than budget	82
Property tax collections less than commitment	(133)
Change in capital reserves	(12)
Other	1
Total	$ (65)

Included in the total general fund balance are the Town's capital reserve accounts with the following balances:

	6/30/13	6/30/12	Change
Capital reserve accounts	$ 1,408	$ 1,420	$ (12)
Total	$ 1,408	$ 1,420	$ (12)

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There was no change between the original budget and the final budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year-end amounted to $10,780 (net of accumulated depreciation), a change of $109 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

- Road Reconstruction $ 257
- Purchase of a Dump truck $ 93
- Purchase of Police Cruisers $ 36

Additional information on capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was $3,754, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to Financial Statements.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

FUTURE BUDGETARY IMPLICATIONS

The unassigned General Fund balance at the end of the 2013 fiscal year was $898,414. This was a slight decrease over the past year. The fund balance must support the irregular cash flow requirements of payments to the School, County, Village District and State for taxes collected on their behalf. The Select Board has identified significant activities or events, which will have impact on future Town finances, including:

1) The State of New Hampshire's responsibility for funding local education remains a subject of legislative debate and adjustment. Accordingly, the amount of state aid remains inconsistent and subject to annual fluctuation.

2) The Select Board continues to work on identifying the challenges associated with Town Facilities and the most cost effective way to meet them. Architects are designing a new public safety facility and space for Town Offices and the Library. The cost of implementing that design will be significant, but the cost of doing nothing will impose significant maintenance and energy costs in the coming years. The plan is likely be on the 2014 Warrant for voters to approve.

3) The State of New Hampshire Retirement System is currently under funded by a significant amount. While the State Legislature has taken steps to address this issue, they have not addressed items such as the continuous funding of the health subsidies and cost-of-living adjustments for retired employees. Also, the System Trustees reduced the assumed rate of return on investments, placing an additional financial burden upon the Town. This could have a major impact on the contributions that the Town makes to the system on behalf of its employees.

4) Reported economic activity continues to increase nation-wide and in New Hampshire, although improvements have been uneven. It is not anticipated that the State will resume its past funding of revenue sharing programs, which may result in additional expenses for the Town or a reduction in services.

5) The Town has just completed a Town-wide property revaluation in accordance with the NH State Constitution. The overall Town valuation only decreased approximately 0.5%, indicating that real estate values are recovering.

6) Health insurance rates continue to rise intermittently at significant levels. The Town has agreements with its represented employees in the Police, Public Works and Fire Departments which resulted in a higher deductible plan which should promote health rate stability.

7) The Town currently receives its healthcare insurance from the New Hampshire Local Government Center (LGC). The LGC is in the midst of reorganization, and while that process suggests no major changes in the way healthcare coverage is provided, the effect of the Affordable Care Act presents uncertainties regarding healthcare.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the North Hampton's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Finance Director
North Hampton, New Hampshire
233 Atlantic Avenue - 2nd Floor
North Hampton, NH 03862

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities
ASSETS	
Current:	
Cash and short-term investments	$ 10,325,628
Receivables, net of allowance for uncollectibles:	
Property taxes	2,118,251
Departmental and other	2,243
Other assets	5,830
Noncurrent:	
Property taxes	198,045
Capital assets:	
Capital assets being depreciated, net of accumulated depreciation	3,141,104
Capital assets not being depreciated	7,638,937
TOTAL ASSETS	23,430,038
LIABILITIES	
Current:	
Accounts payable	79,632
Accrued liabilities	173,448
Unearned revenue	2,306,233
Property taxes paid in advance	5,828,451
Other current liabilities	323,961
Current portion of long-term liabilities:	
Bonds payable	196,128
Capital leases	93,952
Landfill liability	22,816
Accrued employee benefits	9,537
Noncurrent:	
Bonds payable, net of current portion	3,558,065
Capital leases, net of current portion	152,968
Landfill liability, net of current portion	319,415
Accrued employee benefits, net of current portion	181,195
Net OPEB obligation	376,498
TOTAL LIABILITIES	13,622,299
NET POSITION	
Net investment in capital assets	6,778,928
Restricted for:	
Grants and other statutory restrictions	1,262,073
Permanent funds:	
Nonexpendable	411,193
Expendable	35,109
Unrestricted	1,320,436
TOTAL NET POSITION	$ 9,807,739

The accompanying notes are an integral part of these financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
General government	$ 1,461,256	$ 138,871	$ -	$ (1,322,385)
Public safety	2,887,441	149,069	24,972	(2,713,400)
Highways and streets	913,346	-	-	(913,346)
Sanitation	116,819	19,146	-	(97,673)
Health and welfare	83,942	-	-	(83,942)
Culture and recreation	562,219	129,075	7,325	(425,819)
Conservation	11,315	-	-	(11,315)
Interest on long-term debt	157,271	-	-	(157,271)
Total Governmental Activities	$ 6,193,609	$ 436,161	$ 32,297	(5,725,151)

General Revenues and transfers:	
Property taxes	4,547,565
Motor vehicle permits and fees	1,108,607
Grants and contributions not restricted to specific programs	277,061
Investment income	10,510
Other	78,295
Total general revenues and transfers	6,022,038
Change in Net Position	296,887
Net Position:	
Beginning of year	9,510,852
End of year	$ 9,807,739

The accompanying notes are an integral part of these financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2013

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and short-term investments	$ 8,641,410	$ 1,684,218	$ 10,325,628
Receivables:			
Property taxes	2,567,561	-	2,567,561
Departmental and other	2,228	-	2,228
Due from other funds	831,341	225,754	1,057,095
Advance to other funds	31,703	-	31,703
Other assets	5,829	-	5,829
TOTAL ASSETS	$ 12,080,072	$ 1,909,972	$ 13,990,044
LIABILITIES			
Accounts payable	$ 76,605	$ 3,030	$ 79,635
Retainage payable	40,455	-	40,455
Unearned revenue	2,306,233	-	2,306,233
Property taxes paid in advance	5,828,451	-	5,828,451
Due to other funds	805,920	251,175	1,057,095
Advance from other funds	-	31,703	31,703
Due to other governments	2,708	-	2,708
Other liabilities	321,253	11,050	332,303
TOTAL LIABILITIES	9,381,625	296,958	9,678,583
DEFERRED INFLOWS OF RESOURCES	261,328	-	261,328
FUND BLANCES			
Nonspendable	31,703	411,193	442,896
Restricted	-	1,297,182	1,297,182
Committed	1,407,905	-	1,407,905
Assigned	99,097	-	99,097
Unassigned	898,414	(95,361)	803,053
TOTAL FUND BALANCES	2,437,119	1,613,014	4,050,133
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 12,080,072	$ 1,909,972	$ 13,990,044

The accompanying notes are an integral part of these financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2013

Total governmental fund balances	$ 4,050,133
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,780,041
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	10,063
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(121,924)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(3,754,193)
Capital leases	(246,920)
Landfill liability	(342,231)
Accrued employee benefits	(190,732)
Net OPEB obligation	(376,498)
Net position of governmental activities	$ 9,807,739

The accompanying notes are an integral part of these financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2013

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	$ 4,582,547	$ -	$ 4,582,547
Licenses and permits	1,108,607	-	1,108,607
Intergovernmental	277,061	28,404	305,465
Charges for services	167,688	272,425	440,113
Investment income	6,761	3,749	10,510
Miscellaneous	28,254	50,671	78,925
Total Revenues	6,170,918	355,249	6,526,167
Expenditures:			
Current:			
General government	1,330,058	131,701	1,461,759
Public safety	2,791,319	57,875	2,849,194
Highways and streets	854,249	-	854,249
Sanitation	139,635	-	139,635
Welfare	17,692	-	17,692
Culture and recreation	53,815	491,175	544,990
Conservation	11,315	-	11,315
Debt service	370,005	-	370,005
Capital outlay	257,198	-	257,198
Total Expenditures	5,825,286	680,751	6,506,037
Excess (deficiency) of revenues over (under) expenditures	345,632	(325,502)	20,130
Other Financing Sources (Uses):			
Transfers in	13,000	423,968	436,968
Transfers out	(423,968)	(13,000)	(436,968)
Total Other Financing Sources (Uses)	(410,968)	410,968	-
Changes in fund balances	(65,336)	85,466	20,130
Fund Balances, at Beginning of Year	2,502,455	1,527,548	4,030,003
Fund Balances, at End of Year	$ 2,437,119	$ 1,613,014	$ 4,050,133

The accompanying notes are an integral part of these financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

Net change in fund balances - Total governmental funds	$ 20,130
• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay purchases, net of disposals	364,280
Depreciation	(254,852)
• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., property taxes) differ between the two statements. This amount represents the net change in deferred revenue.	(35,690)
• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:	
Issuance of capital leases	(114,576)
Repayments of debt	191,128
Repayments of leases	114,693
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	6,932
• 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 the governmental funds:	
Decrease in landfill liability	22,816
Increase in liability for accrued employee benefits	(4,925)
Increase in OPEB liability	(13,049)
Change in net position of governmental activities	$ 296,887

The accompanying notes are an integral part of these financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES,
AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Revenues:			
Taxes	$ 4,715,623	$ 4,715,623	$ -
Licenses and permits	1,039,125	1,108,607	69,482
Intergovernmental	277,315	277,061	(254)
Charges for services	32,784	54,284	21,500
Investment income	3,000	3,639	639
Miscellaneous	18,730	9,554	(9,176)
Total Revenues	6,086,577	6,168,768	82,191
Expenditures:			
Current:			
General government	1,108,195	1,146,246	(38,051)
Public safety	2,752,407	2,767,047	(14,640)
Highways and streets	878,955	854,249	24,706
Sanitation	148,100	139,635	8,465
Welfare	46,855	24,102	22,753
Culture and recreation	414,503	402,783	11,720
Conservation	14,600	11,315	3,285
Debt service	345,962	340,006	5,956
Capital outlay	315,000	257,198	57,802
Total Expenditures	6,024,577	5,942,581	81,996
Other financing sources (uses):			
Use of fund balance	35,000	35,000	-
Transfers in	163,000	113,000	(50,000)
Transfers out	(260,000)	(260,000)	-
Total Other Financing Sources (Uses)	(62,000)	(112,000)	(50,000)
Excess of revenues and other sources over expenditures and other uses	$ -	$ 114,187	$ 114,187

The accompanying notes are an integral part of these financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and short-term investments	$ 236,604	$ 25,718
Total Assets	236,604	25,718
LIABILITIES		
Other liabilities	-	25,718
Total Liabilities	-	25,718
NET POSITION		
Total net position held in trust	$ 236,604	$ -

The accompanying notes are an integral part of these financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	Private Purpose Trust Fund
Additions:	
Gifts and contributions	$ 147,499
Investment income	50,005
Total additions	197,504
Deductions:	
General expenses	143,932
Total deductions	143,932
Net change	53,572
Net position:	
Beginning of year	183,032
End of year	$ 236,604

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

The accounting policies of the North Hampton (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. *Reporting Entity*

The government is a municipal corporation governed by an elected three-member Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

B. *Government-wide and Fund Financial Statements*

Government-wide Financial Statements
The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of inter-fund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

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

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency fund* is custodial in nature and is used to account for funds held for others.

D. *Cash and Short-Term Investments*

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. *Investments*

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Trust Funds consist of marketable securities, bonds, and short-term money market investments. Investments are carried at market value.

F. *Interfund Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from/to other funds" (i.e., the current portion of interfund loans).

G. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only), is reported in the applicable governmental or business-type activities columns in the government-wide

financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than $10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	20-50
Equipment and vehicles	5-20
Infrastructure	40

H. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "Net Position".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
3) Committed funds are reported and expended as a result of motions passed by the highest decision-making authority in the government (i.e., The Town Meeting).
4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance voted to be used in the subsequent fiscal year.
5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. *Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. *Budgetary Information*

The Town's budget is originally prepared by the Selectmen's office with the cooperation of the various department heads. It is then submitted to the Budget Committee, in accordance with the Municipal Budget Law. After reviewing the budget, the Committee holds a public hearing for discussion.

The final version of the budget is then submitted for approval at the annual Town meeting. The approved budget is subsequently reported to the State of New Hampshire on the statement of appropriation form in order to establish the current property tax rate.

The Selectmen cannot increase the total of the approved budget; however, they have the power to reclassify its components when necessary.

Formal budgetary integration is employed as a management control device during the year for the General Fund.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. *Budgetary Basis*

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. *Budget/GAAP Reconciliation*

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations

of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

General Fund	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Revenues/Expenditures (GAAP Basis)	$ 6,170,918	$ 5,825,286
Other financing sources/uses (GAAP Basis)	13,000	423,968
Subtotal (GAAP Basis)	6,183,918	6,249,254
Adjust tax revenue to accrual basis	133,076	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(14,875)
Add end-of-year appropriation carryforwards from expenditures	-	15,500
To reverse the effect of non-budgeted activity	(35,226)	(47,298)
Recognize use of fund balance as funding source	35,000	-
Budgetary Basis	$ 6,316,768	$ 6,202,581

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2013:

Mosquito fund	$ (63,658)
Capital project fund	(31,703)
	$ (95,361)

The deficits in these funds will be eliminated through future bond proceeds, or future transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. RSA 48:16 limits "deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus, exception that a Town with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2013, none of the Town's bank balance of $10,668,702 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Taxes Receivable

The Town bills property taxes semi-annually, in May and November. Property tax revenues are recognized in the fiscal year for which taxes have been levied. Property taxes are due on July 1 and December 1. Delinquent accounts are charged 12% interest. In March of the next year, a lien is recorded on delinquent property at the Registry of Deeds. The Town purchases all the delinquent accounts by paying the delinquent balance, recording costs and accrued interest. The accounts that are liened by the Town will be reclassified from property taxes receivable to unredeemed tax liens receivable. After this date, delinquent accounts will be charged interest at a rate of 18%. The Town annually budgets amounts (overlay for abatements) for property tax abatements and refunds.

Taxes receivable at June 30, 2013 consist of the following (in thousands):

2014 Property taxes levied in advance	$ 2,306
2013 Tax liens	118
2012 Tax liens	60
Prior tax liens	84
Total	$ 2,568

5. Taxes Collected for Others

The Town collects property taxes for the State of New Hampshire, the School District, the Little Boars Head Village District, and the County of Rockingham. Payments to the other taxing units are normally made throughout the year. The ultimate responsibility for the collection of taxes rests with the Town.

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

Property taxes	$ 231
Tax Liens	21
Total	$ 252

7. Interfund Fund Receivables/Payables and Transfers In/Out

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2013 balances in interfund receivable and payable accounts:

Fund	Due From Other Funds	Due To Other Funds	Advance To Other Funds	Advance From Other Funds
General Fund	$ 831,341	$ 805,920	$ 31,703	$ -
Nonmajor funds:				
Grants and revolving funds	28,412	-	-	-
Police Details	98,048	-	-	-
Recreation	32,748	-	-	-
Mosquito	-	113,350	-	-
PEG TV	54,342	118,780	-	-
Bandstand	-	302	-	-
Conservation	12,204	18,704	-	-
Capital project funds	-	-	-	31,703
Permanent trust funds	-	39	-	-
Total	$ 1,057,095	$ 1,057,095	$ 31,703	$ 31,703

This government reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2013.

Fund	Transfers In	Transfers Out
General Fund	$ 13,000	$ 423,968
Nonmajor funds:		
Police Details	-	13,000
Library	348,968	-
Mosquito	75,000	-
Total	$ 436,968	$ 436,968

8. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	$ 3,080	$ -	$ -	$ 3,080
Machinery, equipment, and furnishings	2,487	129	(332)	2,284
Infrastructure	421	-	-	421
Total capital assets, being depreciated	5,988	129	(332)	5,785
Less accumulated depreciation for:				
Buildings and improvements	(1,152)	(66)	-	(1,218)
Machinery, equipment, and furnishings	(1,429)	(154)	310	(1,273)
Infrastructure	(118)	(35)	-	(153)
Total accumulated depreciation	(2,699)	(255)	310	(2,644)
Total capital assets, being depreciated, net	3,289	(126)	(22)	3,141
Capital assets, not being depreciated:				
Land	7,382	-	-	7,382
Construction in progress	-	257	-	257
Total capital assets, not being depreciated	7,382	257	-	7,639
Governmental activities capital assets, net	$ 10,671	$ 131	$ (22)	$ 10,780

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	$ 44
Public safety	122
Public works	84
Culture and recreation	5
Total depreciation expense - governmental activities	$ 255

9. Accounts Payable

Accounts payable represent fiscal year 2013 expenditures paid after July 1, 2013.

10. Capital Lease Obligations

The Town is the lessee of certain equipment under capital and operating leases expiring in various years through 2015. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2013:

Fiscal Year	Capital Leases
2014	$ 102,920
2015	91,862
2016	51,520
2017	15,729
Total minimum lease payments	262,031
Less amounts representing interest	(15,111)
Present Value of Minimum Lease Payments	$ 246,920

11. Long-Term Debt

A. *General Obligation Bonds*

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

Governmental Activities:	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/13
Public works facility	2028	4.0 - 5.0 %	$ 610,000
Conservation land acquisition	2037	4.0 - 5.0 %	2,055,000
Conservation land acquisition	2017	4.50%	300,000
State of NH Project # 329-01	2019	3.20%	82,242
State of NH Project # 329-02	2020	2.80%	16,951
General obligation bond	2032	3.83%	690,000
Total Governmental Activities:			$ 3,754,193

B. *Future Debt Service*

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2013 are as follows:

Governmental	Principal	Interest	Total
2014	$ 196,128	$ 161,100	$ 357,228
2015	196,128	152,695	348,823
2016	206,128	143,925	350,053
2017	211,128	134,730	345,858
2018	141,128	127,000	268,128
2019 - 2023	723,553	546,555	1,270,108
2024 - 2028	860,000	382,358	1,242,358
2029 - 2033	710,000	210,634	920,634
2034 - 2037	510,000	58,502	568,502
Total	$ 3,754,193	$ 1,917,499	$ 5,671,692

The general fund has been designated as the source to repay the general obligation long-term debt outstanding as of June 30, 2013.

C. *Changes in General Long-Term Liabilities*

During the year ended June 30, 2013, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/12	Additions	Reductions	Total Balance 6/30/13	Less Current Portion	Equals Long-Term Portion 6/30/13
Governmental Activities						
Bonds payable	$ 3,945	$ -	$ (191)	$ 3,754	$ (196)	$ 3,558
Capital leases	247	115	(115)	247	(94)	153
Landfill closure	365	-	(23)	342	(23)	319
Accrued employee benefits	186	14	(9)	191	(10)	181
Net OPEB obligation	364	12	-	376	-	376
Totals	$ 5,107	$ 141	$ (338)	$ 4,910	$ (323)	$ 4,587

12. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Town reports a portion of these closure and postclosure care costs as a liability in the financial statements in each period based on landfill capacity used as of each balance sheet date.

The $342,231 reported as landfill closure and postclosure care liability at June 30, 2013 represents that cumulative amount reported to date based on

the use of 100% of the estimated capacity of the landfill. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

13. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2013:

	Governmental Funds
	General Fund
Fund Basis:	
Unearned property tax revenue	$ 261

14. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

15. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of fund balances are reported at June 30, 2013:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, capital reserve funds set aside by Town Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2013:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Advances to other funds	$ 31,703	$ -	$ 31,703
Nonexpendable permanent funds	-	411,193	411,193
Total Nonexpendable permanent funds	31,703	411,193	442,896
Restricted			
Grants and revolving funds	-	28,132	28,132
Police details	-	98,276	98,276
Recreation	-	29,816	29,816
Library	-	363,378	363,378
Heritage and sidewalk	-	6,198	6,198
PEG television	-	129,216	129,216
Bandstand	-	100,632	100,632
Cemetery	-	353	353
Conservation	-	506,072	506,072
Expendable permanent funds	-	35,109	35,109
Total Restricted	-	1,297,182	1,297,182

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	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Committed			
Town buildings	110,937	-	110,937
Library building	212,032	-	212,032
Tennis court	32,181	-	32,181
Fire Department	457,078	-	457,078
Road reclamation	17	-	17
Coakley	301,843	-	301,843
Document management	41,423	-	41,423
Health stabilization	65,808	-	65,808
Accrued benefit liability	43,912	-	43,912
Earned time settlement	10,221	-	10,221
Paramedic training	24,092	-	24,092
Revaluation	75,055	-	75,055
Municipal transportation	33,306	-	33,306
Total Committed	1,407,905	-	1,407,905
Assigned			
For encumbrances			
Welfare	15,500	-	15,500
For next year's expenditures	83,597	-	83,597
Total Assigned	99,097	-	99,097
Unassigned	898,414	(95,361)	803,053
Total Unassigned	898,414	(95,361)	803,053
Total Fund Balance	$ 2,437,119	$ 1,613,014	$ 4,050,133

16. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how unassigned fund balance is reported in accordance with the budgetary basis for reporting for the State of New Hampshire for tax rate setting purposes. The major difference is the State of New Hampshire considers revenues in connection with property tax receivables to be available to liquidate liabilities when billed rather than received.

17. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the

potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

18. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions,* requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by RSA 100-A:50. As of January 1, 2013, the actuarial valuation date, approximately 12 retirees and 23 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 100% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. *Annual OPEB Costs and Net OPEB Obligation*

The Town's fiscal 2013 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2013, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2013.

Annual Required Contribution (ARC)	$ 116,455
Interest on net OPEB obligation	-
Adjustment to ARC	(103,406)
Annual OPEB cost	13,049
Contributions made	-
Increase in net OPEB obligation	13,049
Net OPEB obligation - beginning of year	363,449
Net OPEB obligation - end of year	$ 376,498

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

Fiscal year ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2013	$ 13,049	0%	$ 376,498
2012	$ 16,281	0%	$ 363,449
2011	$ 173,584	0%	$ 347,168
2010	$ 173,584	0%	$ 173,584

The Town's net OPEB obligation as of June 30, 2013 is recorded as a component of the "other long-term liabilities" line item.

E. *Funded Status and Funding Progress*

The funded status of the plan as of January 1, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	$ 728,825
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 728,825
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$ 2,210,692
UAAL as a percentage of covered payroll	33%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2013 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend rate of 10.0% which decreases to a 5.0% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.0%.

19. Retirement System

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, (as amended by GASB 50) with respect to the employees' retirement funds.

A. *Plan Description*

Full-time employees participate in the State of New Hampshire Retirement System (the System), a multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and permanent police officers within the State of New Hampshire are eligible and required to participate in the system. Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to *Group I*. Police officers and firefighters belong to *Group II*. All assets are held in a single trust and are available to each group, funding policies, vesting requirements, contribution requirements and plan assets available to pay benefits are disclosed in the System's annual report available from the New Hampshire Retirement System located at 54 Regional Drive, Concord, New Hampshire 03301-8507.

B. *Funding Policy*

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 7% for group I employees and 11.80% and 11.55% for Fire and Police group II employees, respectively. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and is 8.8% for group I employees and 22.89% and 19.99% for Fire and Police group II employees, respectively. The Town's contributions to the System for the years ended June 30, 2013, 2012, and 2011 were $398,685, $383,906, and $337,254, respectively, which were equal to its annual required contributions for each of these years.

20. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

21. Implementation of New GASB Standards

The GASB has issued Statement 68 Accounting and Financial Reporting for Pensions, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the New Hampshire Retirement System's actuarially accrued liability.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

SCHEDULE OF FUNDING PROGRESS

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2013
(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent-age of Covered Payroll [(b-a)/c]
01/01/13	$ -	$ 728,825	$ 728,825	0.0%	$ 2,210,692	33%
01/01/12	$ -	$ 803,022	$ 803,022	0.0%	$ 2,111,589	38%
01/01/11	$ -	$ 1,037,576	$ 1,037,576	0.0%	$ 2,083,508	50%

See Independent Auditors' Report.