

**TOWN OF NORTH HAMPTON, NEW HAMPSHIRE**

**Annual Financial Statements**

**For the Year Ended June 30, 2011**

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

102 Perimeter Road  
Nashua, NH 03063-1301  
Tel (603) 882-1111 • Fax (603) 882-9456  
[www.melansonheath.com](http://www.melansonheath.com)

## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of North Hampton, New Hampshire

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, 2011, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town of North Hampton's management. Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, as of June 30, 2011, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis appearing on the following pages, and the supplementary information appearing on page 39, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management

*Additional Offices:*

Andover, MA • Greenfield, MA • Ellsworth, ME • Manchester, NH

regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 12, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Melanson Heath + Company P.C.*  
Nashua, New Hampshire  
January 12, 2012

## **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 of North Hampton for the fiscal year ended June 30, 2011. 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 assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). 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 \$ 8,918 (i.e., net assets), a change of \$ (862) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 3,308, a change of \$ (907) in comparison to the prior year.

- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 885, a change of \$ (256) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 3,396, a change of \$ (157) 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.

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 11,201	\$ 12,336
Capital assets	<u>10,207</u>	<u>9,572</u>
Total assets	21,408	21,908
Long-term liabilities outstanding	4,577	4,464
Other liabilities	<u>7,913</u>	<u>7,664</u>
Total liabilities	12,490	12,128
Net assets:		
Invested in capital assets, net	6,445	5,769
Restricted	1,582	1,991
Unrestricted	<u>891</u>	<u>2,020</u>
Total net assets	<u>\$ 8,918</u>	<u>\$ 9,780</u>

### **CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenues:		
Program revenues:		
Charges for services	\$ 401	\$ 370
Operating grants and contributions	25	104
General revenues:		
Property taxes	3,548	3,797
Motor vehicle permits and fees	1,030	981
Grants and contributions not restricted to specific programs	300	333
Investment income	53	52
Other	<u>37</u>	<u>158</u>
Total revenues	5,394	5,795

(continued)

(continued)

**CHANGES IN NET ASSETS**

	<b>Governmental Activities</b>	
Expenses:		
General government	1,697	1,653
Public safety	2,705	2,899
Public works	873	824
Sanitation	124	140
Health and welfare	54	51
Culture and recreation	595	641
Conservation	2	8
Interest on long-term debt	206	169
Total expenses	<u>6,256</u>	<u>6,385</u>
Change in net assets	(862)	(590)
Net assets - beginning of year (as restated)	<u>9,780</u>	<u>10,370</u>
Net assets - end of year	<u>\$ 8,918</u>	<u>\$ 9,780</u>

As noted earlier, net assets 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 assets were \$ 8,918, a change of \$ (862) from the prior year.

The largest portion of net assets \$ 6,445 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 assets \$ 1,582 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 891 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 assets of \$ (862). Key elements of this change are as follows:



General fund operations	\$ (218)
Special revenue fund expenditures and transfers out in excess of revenues and transfers in	(94)
Trust fund revenues over expenditures	3
Depreciation in excess of principal debt service expense	(73)
Change in net OPEB obligation	(174)
Change in capital leases	(115)
Other	<u>(191)</u>
Total	\$ <u><u>(862)</u></u>

#### **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 \$ 3,308, a change of \$ (907) 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	\$ (218)
Special revenue fund expenditures and transfers out in excess of revenues and transfers in	(94)
Capital project fund expenditures	(598)
Trust fund revenues over expenditures	<u>3</u>
Total	\$ <u><u>(907)</u></u>

In fiscal year 2011, the Town implemented *Governmental Accounting Standards Board Statement #54 Fund Balance Reporting and Governmental Fund Type Definitions*. In general, amounts previously reported as undesignated fund balance, are now reported as unassigned fund balance. Full definitions of all fund balance classifications can be found in the Notes to the Financial Statements. Additionally, amounts previously reported in capital reserve funds, are now required to be presented as committed fund balance in the general fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 885, while total fund balance was \$ 2,577. 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.

<u>General Fund</u>	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u> <sup>(2)</sup>
Unassigned fund balance	\$ 885	\$ 1,141	\$ (256)	16.3%
Total fund balance <sup>(1)</sup>	2,577	2,795	(218)	47.4%

<sup>(1)</sup>Now includes capital reserve funds. Prior period balances have been revised to conform to current presentation.

<sup>(2)</sup>Excludes School District Expenditures.

The total fund balance of the general fund changed by \$ (218) during the current fiscal year. Key factors in this change are as follows:

Use of fund balances as a funding source	\$ (652)
Revenues and transfers less than budget	(6)
Expenditures and transfers less than budget	169
Collections of past due property taxes	321
Change in capital reserves	(34)
Other	<u>(16)</u>
Total	<u>\$ (218)</u>

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

	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>
Capital reserve accounts	\$ 1,594	\$ 1,628	\$ (34)

## **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 and business-type activities at year-end amounted to \$ 10,207 (net of accumulated depreciation),

a change of \$ 635 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:

- Acquisition of the Corbett property                      \$ 588
- Purchase of a bucket loader                                      148

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 \$ 3,396, 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 the 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 2011 fiscal year was \$ 885,000. This was a significant decrease over 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 Significant activities or events, which will have impact on future Town finances, include:

1. The State of New Hampshire is under a court order to revise its method of funding education. The Legislature typically does not adopt its current year's "fix" for the problem until after local budgets are adopted.
2. The Town will be addressing whether additional space is needed for the Fire Department, Library and Town Offices.
3. The State of New Hampshire Retirement System is currently under funded by a significant amount. While the State 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. This could have a major impact on the contributions that the Town makes to the system on behalf of its employees.
4. With the national economic forecast bleak, the State has begun to react to these changes. The State has begun reducing revenues shared with the Town and has reduced their share of contributions to a number of programs. This will result in additional expenses for the Town or a reduction in services.

5. The Town will be undertaking a Town-wide property revaluation in accordance with the NH State Constitution. With the softening of the housing market in New Hampshire, this could reduce the overall Town value.
6. The collective bargaining agreements with the North Hampton Fire Fighters expired on June 30, 2010, and negotiations for a new contract are continuing. The collective bargaining agreement with the New England Police Benevolent Association (Police and Highway) expired on June 30, 2010, and while an agreement was successfully negotiated, it was for one year. The Town is actively negotiating another agreement.
7. Health Insurance rates continue to rise at significant levels. The Town must review options for the benefits provided to its employees to try to limit increases.
8. The Town receives its healthcare insurance from the New Hampshire Local Government Center (LGC.) The LGC is currently under investigation by the NH Bureau of Securities Regulations for past practices. Depending on the outcome of this investigation, there could be significant changes in the way the Town provides healthcare coverage for its employees.
9. There is a continuing need to rehabilitate the road system.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of 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  
Town of North Hampton, New Hampshire  
233 Atlantic Avenue - 2<sup>nd</sup> Floor  
North Hampton, NH 03862

## TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

## STATEMENT OF NET ASSETS

JUNE 30, 2011

	Governmental <u>Activities</u>
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 9,322,466
Receivables, net of allowance for uncollectibles:	
Property taxes	1,563,148
Departmental and other	5,549
Other assets	20,241
Noncurrent:	
Property taxes	289,646
Capital assets:	
Capital assets being depreciated, net of accumulated depreciation	2,800,579
Capital assets not being depreciated	7,406,739
<b>TOTAL ASSETS</b>	<b>21,408,368</b>
<b>LIABILITIES</b>	
Current:	
Accounts payable	15,599
Accrued liabilities	198,678
Unearned revenue	1,729,573
Property taxes paid in advance	5,765,391
Other current liabilities	4,944
Notes payable	199,825
Current portion of long-term liabilities:	
Bonds payable	166,128
Capital leases	65,105
Landfill liability	22,816
Accrued employee benefits	13,957
Noncurrent:	
Bonds payable, net of current portion	3,230,321
Capital leases, net of current portion	100,945
Landfill liability, net of current portion	365,047
Accrued employee benefits, net of current portion	265,175
Net OPEB obligation	347,168
<b>TOTAL LIABILITIES</b>	<b>12,490,672</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,444,994
Restricted for:	
Grants and other statutory restrictions	1,178,598
Permanent funds:	
Nonexpendable	386,051
Expendable	17,501
Unrestricted	890,552
<b>TOTAL NET ASSETS</b>	<b>\$ 8,917,696</b>

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

		Program Revenues			Net (Expenses) Revenues and
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental Activities:</b>					
General government	\$ 1,697,382	\$ 69,433	\$ -	\$ -	\$ (1,627,949)
Public safety	2,705,408	156,649	-	-	(2,548,759)
Highways and streets	872,744	-	17,366	-	(855,378)
Sanitation	124,044	22,131	-	-	(101,913)
Health and welfare	53,738	-	-	-	(53,738)
Culture and recreation	595,409	153,253	7,697	-	(434,459)
Conservation	2,258	-	-	-	(2,258)
Interest on long-term debt	205,661	-	-	-	(205,661)
Total Governmental Activities	<u>\$ 6,256,644</u>	<u>\$ 401,466</u>	<u>\$ 25,063</u>	<u>\$ -</u>	<u>\$ (5,830,115)</u>
General Revenues and transfers:					
					3,547,794
					1,029,601
					299,795
					52,967
					37,455
Total general revenues and transfers					<u>4,967,612</u>
Change in Net Assets					(862,503)
<b>Net Assets:</b>					
Beginning of year, as restated					<u>9,780,199</u>
End of year					<u>\$ 8,917,696</u>

See notes to financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 7,848,374	\$ 1,474,092	\$ 9,322,466
Receivables:			
Property taxes	2,051,402	-	2,051,402
Departmental and other	5,549	-	5,549
Due from other funds	1,105,433	213,829	1,319,262
Prepaid items	<u>20,241</u>	<u>-</u>	<u>20,241</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>11,030,999</u></b>	<b>\$ <u>1,687,921</u></b>	<b>\$ <u>12,718,920</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 9,484	\$ 6,115	\$ 15,599
Retainage payable	61,284	-	61,284
Deferred revenues	2,031,127	-	2,031,127
Property taxes paid in advance	5,765,391	-	5,765,391
Due to other funds	581,767	737,495	1,319,262
Other liabilities	4,944	13,000	17,944
Notes payable	<u>-</u>	<u>199,825</u>	<u>199,825</u>
<b>TOTAL LIABILITIES</b>	<b>8,453,997</b>	<b>956,435</b>	<b>9,410,432</b>
Fund Balances:			
Nonspendable	87,801	386,051	473,852
Restricted	-	1,196,099	1,196,099
Committed	1,593,590	-	1,593,590
Assigned	10,370	-	10,370
Unassigned	<u>885,241</u>	<u>(850,664)</u>	<u>34,577</u>
<b>TOTAL FUND BALANCES</b>	<b><u>2,577,002</u></b>	<b><u>731,486</u></b>	<b><u>3,308,488</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ <u>11,030,999</u></b>	<b>\$ <u>1,687,921</u></b>	<b>\$ <u>12,718,920</u></b>

See notes to 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 ASSETS

JUNE 30, 2011

<b>Total governmental fund balances</b>	\$ 3,308,488
<ul style="list-style-type: none"> <li>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li> </ul>	10,207,318
<ul style="list-style-type: none"> <li>Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li> </ul>	102,946
<ul style="list-style-type: none"> <li>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li> </ul>	(124,394)
<ul style="list-style-type: none"> <li>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:</li> </ul>	
Bonds payable	(3,396,449)
Capital leases	(166,050)
Landfill liability	(387,863)
Accrued employee benefits	(279,132)
Net OPEB obligation	(347,168)
<b>Net assets of governmental activities</b>	<u><u>\$ 8,917,696</u></u>

See notes to 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, 2011

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Taxes	\$ 4,002,814	\$ -	\$ 4,002,814
Licenses and permits	1,029,601	-	1,029,601
Intergovernmental	299,795	17,366	317,161
Charges for services	174,358	234,798	409,156
Investment income	13,502	12,941	26,443
Miscellaneous	30,006	7,458	37,464
Total Revenues	<u>5,550,076</u>	<u>272,563</u>	<u>5,822,639</u>
<b>Expenditures:</b>			
Current:			
General government	1,421,575	176,232	1,597,807
Public safety	2,557,064	23,854	2,580,918
Highways and streets	774,564	-	774,564
Sanitation	143,302	-	143,302
Welfare	52,196	-	52,196
Culture and recreation	73,369	499,634	573,003
Conservation	2,194	-	2,194
Debt service	312,750	-	312,750
Capital outlay	95,585	597,587	693,172
Total Expenditures	<u>5,432,599</u>	<u>1,297,307</u>	<u>6,729,906</u>
Excess (deficiency) of revenues over (under) expenditures	117,477	(1,024,744)	(907,267)
<b>Other Financing Sources (Uses):</b>			
Transfers in	20,744	356,004	376,748
Transfers out	(356,004)	(20,744)	(376,748)
Total Other Financing Sources (Uses)	<u>(335,260)</u>	<u>335,260</u>	<u>-</u>
Changes in fund balances	(217,783)	(689,484)	(907,267)
Fund Balances, at Beginning of Year, as restated	<u>2,794,785</u>	<u>1,420,970</u>	<u>4,215,755</u>
Fund Balances, at End of Year	<u>\$ 2,577,002</u>	<u>\$ 731,486</u>	<u>\$ 3,308,488</u>

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, 2011

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (907,267)

- 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	864,990
Depreciation	(229,380)

- 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. (455,020)

- 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 assets:

Repayments of debt	156,128
--------------------	---------

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (22,517)

- 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:

Increase in capital leases	(115,462)
Decrease in landfill liability	22,816
Increase in liability for accrued employee benefits	(3,207)
Increase in OPEB liability	<u>(173,584)</u>

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ (862,503)

## 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, 2011

	Original and Final <u>Budget</u>	Actual <u>Amounts</u>	Variance With Final Budget Positive <u>(Negative)</u>
<b>Revenues:</b>			
Taxes	\$ 3,681,528	\$ 3,681,528	\$ -
Licenses and permits	1,059,375	1,029,601	(29,774)
Intergovernmental	299,702	299,795	93
Charges for services	51,500	83,784	32,284
Investment income	<u>10,000</u>	<u>6,616</u>	<u>(3,384)</u>
Total Revenues	5,102,105	5,101,324	(781)
<b>Expenditures:</b>			
Current:			
General government	1,084,177	1,094,892	(10,715)
Public safety	2,723,165	2,557,064	166,101
Highways and streets	794,041	784,934	9,107
Sanitation	144,100	143,302	798
Welfare	48,255	52,196	(3,941)
Culture and recreation	65,163	73,369	(8,206)
Conservation	4,600	2,194	2,406
Debt service	323,100	312,750	10,350
Capital outlay	<u>98,500</u>	<u>95,585</u>	<u>2,915</u>
Total Expenditures	<u>5,285,101</u>	<u>5,116,286</u>	<u>168,815</u>
<b>Other financing sources (uses):</b>			
Use of fund balance	652,000	652,000	-
Transfers in	74,000	68,744	(5,256)
Transfers out	<u>(543,004)</u>	<u>(543,004)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>182,996</u>	<u>177,740</u>	<u>(5,256)</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u><u>-</u></u>	\$ <u><u>162,778</u></u>	\$ <u><u>162,778</u></u>

See notes to financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Private Purpose Trust Fund	Agency Fund
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ <u>204,056</u>	\$ <u>44,429</u>
Total Assets	204,056	44,429
<b><u>LIABILITIES</u></b>		
Other liabilities	<u>-</u>	<u>44,429</u>
Total Liabilities	<u>-</u>	<u>44,429</u>
<b><u>NET ASSETS</u></b>		
Total net assets held in trust	\$ <u><u>204,056</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Private Purpose Trust Fund</u>
<b>Additions:</b>	
Gifts and contributions	\$ 80,000
Investment income	663
Total additions	<u>80,663</u>
<b>Deductions:</b>	
General expenses	<u>31,985</u>
Total deductions	<u>31,985</u>
Net increase	48,678
<b>Net assets:</b>	
Beginning of year	<u>155,378</u>
End of year	\$ <u><u>204,056</u></u>

See notes to financial statements.

# TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of 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. In fiscal year 2011, it was determined that no entities met the required GASB 39 criteria of component units.

#### B. Government-wide and Fund Financial Statements

##### Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements.

*Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental

Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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) are 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:

<u>Assets</u>	<u>Years</u>
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 obliga-

tions are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

#### *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 assets”.

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 (free cash) 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 Assets - Net assets represent the difference between assets and liabilities. Net assets invested 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 assets are 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. All other net assets are 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.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 5,550,076	\$ 5,432,599
Other financing sources/uses (GAAP Basis)	<u>20,744</u>	<u>356,004</u>
Subtotal (GAAP Basis)	5,570,820	5,788,603
Adjust tax revenue to accrual basis	(321,286)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(25,548)
Add end of year appropriation carryforwards to expenditures	-	10,370
To reverse the effect of non- budgeted activity	(79,466)	(114,135)
Recognize use of fund balance as funding source	<u>652,000</u>	<u>-</u>
Budgetary Basis	\$ <u><u>5,822,068</u></u>	\$ <u><u>5,659,290</u></u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2011:

- Mosquito fund \$ ( 87,801)
- Capital project fund (762,863)

The deficits in these funds will be eliminated through future bond proceeds, and 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, 2011, none of the Town's bank balance of \$ 9,566,096 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, 2011 consist of the following (in thousands):

Real estate	\$ 1,729
Tax Liens	<u>322</u>
Total	<u>\$ 2,051</u>

### **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.

## 5. Allowance for Doubtful Accounts

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

Real estate (current)	\$ 166
Real estate (prior)	<u>32</u>
Total	<u>\$ 198</u>

## 6. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2011.

## 7. Interfund Fund Receivables/Payables

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, 2011 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 1,105,433	\$ 581,767
Grants and revolving funds	31,510	-
Police Details	72,787	-
Recreation	55,190	-
Mosquito	-	92,300
PEG TV	54,342	82,157
Capital Project Funds	<u>-</u>	<u>563,038</u>
Total	<u>\$ 1,319,262</u>	<u>\$ 1,319,262</u>

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,080	\$ -	\$ -	\$ 3,080
Machinery, equipment, and furnishings	1,793	302	(100)	1,995
Infrastructure	<u>231</u>	<u>-</u>	<u>-</u>	<u>231</u>
Total capital assets, being depreciated	5,104	302	(100)	5,306
Less accumulated depreciation for:				
Buildings and improvements	(1,020)	(66)	-	(1,086)
Machinery, equipment, and furnishings	(1,259)	(144)	75	(1,328)
Infrastructure	<u>(72)</u>	<u>(19)</u>	<u>-</u>	<u>(91)</u>
Total accumulated depreciation	<u>(2,351)</u>	<u>(229)</u>	<u>75</u>	<u>(2,505)</u>
Total capital assets, being depreciated, net	2,753	73	(25)	2,801
Capital assets, not being depreciated:				
Land	6,793	588	-	7,381
Construction in progress	<u>25</u>	<u>-</u>	<u>-</u>	<u>25</u>
Total capital assets, not being depreciated	<u>6,818</u>	<u>588</u>	<u>-</u>	<u>7,406</u>
Governmental activities capital assets, net	<u>\$ 9,571</u>	<u>\$ 661</u>	<u>\$ (25)</u>	<u>\$ 10,207</u>

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

Governmental Activities:	
General government	\$ 48
Public safety	111
Public works	65
Culture and recreation	<u>5</u>
Total depreciation expense	<u>\$ 229</u>

## 9. Accounts Payable and Accrued Expenses

Accounts payable represent 2011 expenditures paid after July 1, 2011.

## 10. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund *deferred revenues* account is equal to the total of all June 30, 2011 receivable balances, except property taxes that are accrued for subsequent 60-day collections.

## 11. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2011:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>6/30/11</u>
Bond anticipation	2.70%	06/23/11	07/21/11	\$ <u>199,825</u>

The following summarizes activity in notes payable during fiscal year 2011:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ <u>199,825</u>	<u>199,825</u>	<u>(199,825)</u>	\$ <u>199,825</u>

## 12. 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, 2011:

	Fiscal <u>Year</u>	Capital <u>Leases</u>
	2012	\$ 72,495
	2013	51,935
	2014	30,694
	2015	<u>30,037</u>
Total minimum lease payments		185,161
Less amounts representing interest		<u>(19,111)</u>
Present Value of Minimum Lease Payments		\$ <u>166,050</u>



### 13. 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:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/11</u>
Public works facility	2028	4.0 - 5.0 %	\$ 670,000
Conservation land acquisition	2037	4.0 - 5.0 %	2,145,000
Conservation land acquisition	2017	4.50%	450,000
State of NH Project # 329-01	2019	3.20%	109,656
State of NH Project # 329-02	2020	2.80%	<u>21,793</u>
Total Governmental Activities:			<u>\$ 3,396,449</u>

#### B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2011 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 166,128	\$ 149,884	\$ 316,012
2013	166,128	142,919	309,047
2014	171,128	135,400	306,528
2015	171,128	127,620	298,748
2016	176,128	119,725	295,853
2017-2021	620,809	500,265	1,121,074
2022-2026	615,000	372,922	987,922
2027-2031	580,000	234,940	814,940
2032-2036	595,000	113,176	708,176
2037	<u>135,000</u>	<u>6,076</u>	<u>141,076</u>
Total	<u>\$ 3,396,449</u>	<u>\$ 1,902,927</u>	<u>\$ 5,299,376</u>

The general fund has been designated as the source to repay the general obligation long-term debt outstanding as of June 30, 2011.

### C. Changes in General Long-Term Liabilities

During the year ended June 30, 2011, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/10	Additions	Reductions	Total Balance 6/30/11	Less Current Portion	Equals Long-Term Portion 6/30/11
<u>Governmental Activities</u>						
Bonds payable	\$ 3,553	\$ -	\$ (157)	\$ 3,396	\$ (166)	\$ 3,230
Other:						
Landfill closure	411	-	(23)	388	(23)	365
Accrued employee benefits	276	17	(14)	279	(14)	265
Net OPEB obligation	174	174	-	348	-	348
Capital leases	51	165	(50)	166	(65)	101
Totals	<u>\$ 4,465</u>	<u>\$ 356</u>	<u>\$ (244)</u>	<u>\$ 4,577</u>	<u>\$ (268)</u>	<u>\$ 4,309</u>

### **14. 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 \$ 387,863 reported as landfill closure and postclosure care liability at June 30, 2011 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.

### **15. Restricted Net Assets**

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

Permanent fund restricted net assets 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.

## 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 undesignated 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. Subsequent Events

### Debt

Subsequent to June 30, 2011, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation bonds	\$ 715,000	3.82%	07/21/11	08/15/31

## 18. 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.

## 19. 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 State-

ment of Revenues, Expenses, and Changes in Net Assets 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 Assets 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, 2011, 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 2011 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, 2011, 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, 2011.

Annual Required Contribution (ARC)	\$ 173,584
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>173,584</u>
Contributions made	<u>-</u>
Increase in net OPEB obligation	173,584
Net OPEB obligation - beginning of year	<u>173,584</u>
Net OPEB obligation - end of year	<u>\$ 347,168</u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 173,584	0%	\$ 347,168
2010	\$ 173,584	0%	\$ 173,584

The Town's net OPEB obligation as of June 30, 2011 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, 2011, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 1,037,576
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,037,576</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 2,083,508</u>
UAAL as a percentage of covered payroll	<u>50%</u>

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, 2011 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%.

**20. 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 4 Chenell Drive, Concord, New Hampshire 03301-8509.

**B. Funding Policy**

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 5% for group I employees and 9.2% for group II employees. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and is 9.2% for group I employees and 16.6% for group II employees. The Town's contributions to the System for the years ended June 30, 2011, 2010, and 2009 were \$ 337,254, \$ 319,884, and \$ 304,807, respectively, which were equal to its annual required contributions for each of these years.

**21. 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.

**22. Beginning Fund Balance Net Assets Restatement**

The beginning (July 1, 2010) fund balances of the Town have been restated as follows:

Government-Wide Financial Statements:

	Governmental
As previously reported	\$ 9,953,783
To restate the Net OPEB obligation	<u>(173,584)</u>
As restated	<u>\$ 9,780,199</u>

Fund Basis Financial Statements:

	<u>General Fund</u>	<u>Capital Reserve Funds</u>	<u>Non- Major Funds</u>	<u>Total</u>
As previously reported	\$ 1,200,528	\$ 1,590,142	\$ 1,425,085	\$ 4,215,755
To reclassify mosquito balance	(34,002)	-	34,002	-
To reclassify due to the implementation of GASB statement 54	<u>1,628,259</u>	<u>(1,590,142)</u>	<u>(38,117)</u>	<u>-</u>
As restated	<u>\$ 2,794,785</u>	<u>\$ -</u>	<u>\$ 1,420,970</u>	<u>\$ 4,215,755</u>



**TOWN OF NORTH HAMPTON, NEW HAMPSHIRE**  
**SCHEDULE OF FUNDING PROGRESS**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2011**  
**(Unaudited)**

**Other Post-Employment Benefits**

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
01/01/11	\$ -	\$ 1,037,576	\$ 1,037,576	0.0%	\$ 2,083,508	50%

See Independent Auditors' Report.