

NORTH HAMPTON, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
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, 2012, 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. 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, 2012, 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 (GAAP).

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information 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 proce-

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dures 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
November 15, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the North Hampton, we offer readers this narrative overview and analysis of the financial activities of the North Hampton for the fiscal year ended June 30, 2012. 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 \$ 9,511 (i.e., net assets), a change of \$ 593 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 4,030, a change of \$ 722 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 952, a change of \$ 67 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 3,945, a change of \$ 549 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	
	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 12,415	\$ 11,201
Capital assets	<u>10,671</u>	<u>10,207</u>
Total assets	23,086	21,408
Long-term liabilities outstanding	5,107	4,577
Other liabilities	<u>8,468</u>	<u>7,913</u>
Total liabilities	13,575	12,490
Net assets:		
Invested in capital assets, net	6,478	6,445
Restricted	1,643	1,582
Unrestricted	<u>1,390</u>	<u>891</u>
Total net assets	<u>\$ 9,511</u>	<u>\$ 8,918</u>

CHANGES IN NET ASSETS

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues:		
Charges for services	\$ 457	\$ 401
Operating grants and contributions	70	25
General revenues:		
Property taxes	4,613	3,548
Motor vehicle permits and fees	1,072	1,030
Grants and contributions not restricted to specific programs	291	300
Investment income	33	53
Other	<u>29</u>	<u>37</u>
Total revenues	6,565	5,394

(continued)

(continued)

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Expenses:		
General government	1,440	1,697
Public safety	2,759	2,705
Public works	821	873
Sanitation	130	124
Health and welfare	89	54
Culture and recreation	539	595
Conservation	5	2
Interest on long-term debt	<u>189</u>	<u>206</u>
Total expenses	<u>5,972</u>	<u>6,256</u>
Change in net assets	593	(862)
Net assets - beginning of year	<u>8,918</u>	<u>9,780</u>
Net assets - end of year	<u>\$ 9,511</u>	<u>\$ 8,918</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 \$ 9,511, a change of \$ 593 from the prior year.

The largest portion of net assets \$ 6,478 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 \$ 1,643 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 1,390 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 \$ 593. Key elements of this change are as follows:

General fund expenditures and transfers out in excess of revenues and transfers in	\$ (75)
Special revenue fund revenues and transfers in in excess of expenditures and transfers out	54
Trust fund revenues over expenditures	12
Depreciation in excess of principal debt service expense	(71)
Change in compensated absences	93
Change in net OPEB obligation	(16)
Increase in capital assets from existing resources	528
Other	<u>68</u>
Total	\$ <u><u>593</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 \$ 4,030, a change of \$ 722 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	\$ (75)
Special revenue fund revenues and transfers in in excess of expenditures and transfers out	54
Capital project fund revenue and bond proceeds	731
Trust fund revenues over expenditures	<u>12</u>
Total	\$ <u><u>722</u></u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 952, while total fund balance was \$ 2,502. 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>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	<u>% of Total General Fund Expenditures⁽¹⁾</u>
Unassigned fund balance	\$ 952	\$ 885	\$ 67	16.1%
Total fund balance	2,502	2,577	(75)	42.4%

⁽¹⁾ Excludes School District Expenditures.

The total fund balance of the general fund changed by \$ (75) during the current fiscal year. Key factors in this change are as follows:

Use of fund balances as a funding source	\$ (45)
Revenues and transfers greater than budget	45
Expenditures and transfers less than budget	59
Collections of past due property taxes	42
Change in capital reserves	(174)
Other	<u>(2)</u>
Total	<u>\$ (75)</u>

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

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
Capital reserve accounts	\$ <u>1,420</u>	\$ <u>1,594</u>	\$ <u>(174)</u>
Total	\$ <u>1,420</u>	\$ <u>1,594</u>	\$ <u>(174)</u>

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 \$ 10,671 (net of accumulated depreciation), a change of \$ 464 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:

- Purchase of a fire truck \$ 464
- Roadway reconstruction \$ 190

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 \$ 3,945, 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 2012 fiscal year was \$ 952,303. This was a slight increase 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 has identified significant activities or events, which will have an 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 Town, through its Capital Improvement Plan Committee, continues to study the most cost-effective manner to address current space constraints for public safety services, Library, and Town Offices.
- 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) With the national economic forecast showing slight improvement, the State has been reacting to these changes. 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 will be undertaking a Town-wide property revaluation in accordance with the NH State Constitution. With the housing market in New Hampshire not yet rebounding to pre-recessionary levels, this could reduce the overall Town value.
- 6) Health insurance rates continue to rise intermittently at significant levels. The Town has reached agreement 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 has been ordered by the Secretary of State's Office to adjust its business practices; this action, coupled with changes to the other public sector health pools operating in New Hampshire, may result in significant changes in the way the Town provides healthcare coverage for its employees.

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 ASSETS

JUNE 30, 2012

	Governmental <u>Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 10,158,312
Receivables, net of allowance for uncollectibles:	
Property taxes	1,962,823
Departmental and other	10,751
Intergovernmental	4,157
Noncurrent:	
Property taxes	279,066
Capital assets:	
Capital assets being depreciated, net of accumulated depreciation	3,288,874
Capital assets not being depreciated	<u>7,381,739</u>
TOTAL ASSETS	23,085,722
LIABILITIES	
Current:	
Accounts payable	29,413
Accrued liabilities	186,390
Unearned revenue	2,180,915
Property taxes paid in advance	5,935,778
Other current liabilities	135,713
Current portion of long-term liabilities:	
Bonds payable	191,128
Capital leases	85,120
Landfill liability	22,816
Accrued employee benefits	9,290
Noncurrent:	
Bonds payable, net of current portion	3,754,193
Capital leases, net of current portion	161,917
Landfill liability, net of current portion	342,231
Accrued employee benefits, net of current portion	176,517
Net OPEB obligation	<u>363,449</u>
TOTAL LIABILITIES	13,574,870
NET ASSETS	
Invested in capital assets, net of related debt	6,478,255
Restricted for:	
Grants and other statutory restrictions	1,227,474
Permanent funds:	
Nonexpendable	397,176
Expendable	18,198
Unrestricted	<u>1,389,749</u>
TOTAL NET ASSETS	<u>\$ 9,510,852</u>

See notes to financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

		<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
General government	\$ 1,440,185	\$ 65,222	\$ 3,280	\$ (1,371,683)
Public safety	2,759,322	233,492	59,254	(2,466,576)
Highways and streets	820,711	-	-	(820,711)
Sanitation	130,305	13,722	-	(116,583)
Health and welfare	89,096	-	900	(88,196)
Culture and recreation	539,100	145,014	6,846	(387,240)
Conservation	4,653	-	-	(4,653)
Interest on long-term debt	188,934	-	-	(188,934)
Total Governmental Activities	<u>\$ 5,972,306</u>	<u>\$ 457,450</u>	<u>\$ 70,280</u>	<u>\$ (5,444,576)</u>
General Revenues and transfers:				
				4,612,631
				1,071,692
				291,442
				32,516
				29,451
Total general revenues and transfers				<u>6,037,732</u>
Change in Net Assets				593,156
Net Assets:				
Beginning of year				<u>8,917,696</u>
End of year				<u>\$ 9,510,852</u>

See notes to financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 8,639,336	\$ 1,518,976	\$ 10,158,312
Receivables:			
Property taxes	2,490,988	-	2,490,988
Departmental and other	143	10,608	10,751
Intergovernmental	4,157	-	4,157
Due from other funds	261,271	225,763	487,034
Advance to other funds	<u>115,300</u>	<u>-</u>	<u>115,300</u>
TOTAL ASSETS	<u>\$ 11,511,195</u>	<u>\$ 1,755,347</u>	<u>\$ 13,266,542</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 27,332	\$ 1,908	\$ 29,240
Retainage payable	46,028	-	46,028
Deferred revenues	2,475,767	-	2,475,767
Property taxes paid in advance	5,935,778	-	5,935,778
Due to other funds	388,122	98,912	487,034
Advance from other funds	-	115,300	115,300
Due to other governments	1,896	-	1,896
Other liabilities	<u>133,817</u>	<u>11,679</u>	<u>145,496</u>
TOTAL LIABILITIES	9,008,740	227,799	9,236,539
Fund Balances:			
Nonspendable	115,300	397,176	512,476
Restricted	-	1,245,672	1,245,672
Committed	1,419,977	-	1,419,977
Assigned	14,875	-	14,875
Unassigned	<u>952,303</u>	<u>(115,300)</u>	<u>837,003</u>
TOTAL FUND BALANCES	<u>2,502,455</u>	<u>1,527,548</u>	<u>4,030,003</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,511,195</u>	<u>\$ 1,755,347</u>	<u>\$ 13,266,542</u>

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, 2012

Total governmental fund balances	\$ 4,030,003
<ul style="list-style-type: none">Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,670,613
<ul style="list-style-type: none">Revenues are reported on the accrual basis of accounting and are not deferred until collection.	45,753
<ul style="list-style-type: none">In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(128,856)
<ul style="list-style-type: none">Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(3,945,321)
Capital leases	(247,037)
Landfill liability	(365,047)
Accrued employee benefits	(185,807)
Net OPEB obligation	<u>(363,449)</u>
Net assets of governmental activities	\$ <u>9,510,852</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, 2012

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Taxes	\$ 4,666,083	\$ -	\$ 4,666,083
Licenses and permits	1,071,692	-	1,071,692
Intergovernmental	291,442	61,786	353,228
Charges for services	180,079	293,635	473,714
Investment income	10,467	22,049	32,516
Miscellaneous	<u>7,566</u>	<u>16,208</u>	<u>23,774</u>
Total Revenues	6,227,329	393,678	6,621,007
Expenditures:			
Current:			
General government	1,295,220	129,310	1,424,530
Public safety	2,623,321	104,387	2,727,708
Highways and streets	785,516	-	785,516
Sanitation	153,121	-	153,121
Welfare	22,706	-	22,706
Culture and recreation	57,937	481,869	539,806
Conservation	4,653	-	4,653
Debt service	462,689	-	462,689
Capital outlay	<u>493,763</u>	<u>-</u>	<u>493,763</u>
Total Expenditures	5,898,926	715,566	6,614,492
Excess (deficiency) of revenues over (under) expenditures	328,403	(321,888)	6,515
Other Financing Sources (Uses):			
Bond proceeds	-	715,000	715,000
Transfers in	10,286	413,236	423,522
Transfers out	<u>(413,236)</u>	<u>(10,286)</u>	<u>(423,522)</u>
Total Other Financing Sources (Uses)	(402,950)	1,117,950	715,000
Changes in fund balances	(74,547)	796,062	721,515
Fund Balances, at Beginning of Year	<u>2,577,002</u>	<u>731,486</u>	<u>3,308,488</u>
Fund Balances, at End of Year	\$ <u>2,502,455</u>	\$ <u>1,527,548</u>	\$ <u>4,030,003</u>

See notes to 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, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 721,515
<ul style="list-style-type: none"> 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	700,487
Depreciation	(237,192)
<ul style="list-style-type: none"> 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. 	(57,193)
<ul style="list-style-type: none"> 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: 	
Issuance of debt	(715,000)
Issuance of capital leases	(193,076)
Repayments of debt	166,128
Repayments of leases	112,089
<ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	(4,462)
<ul style="list-style-type: none"> 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
Decrease in liability for accrued employee benefits	93,325
Increase in OPEB liability	<u>(16,281)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>593,156</u>

See notes to 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, 2012

	Original and Final <u>Budget</u>	Actual <u>Amounts</u>	Variance With Final Budget Positive <u>(Negative)</u>
Revenues:			
Taxes	\$ 4,625,062	\$ 4,625,062	\$ -
Licenses and permits	1,039,125	1,071,692	32,567
Intergovernmental	296,013	291,442	(4,571)
Charges for services	18,429	47,503	29,074
Investment income	3,000	6,679	3,679
Miscellaneous	<u>23,730</u>	<u>7,566</u>	<u>(16,164)</u>
Total Revenues	6,005,359	6,049,944	44,585
Expenditures:			
Current:			
General government	1,092,066	1,129,071	(37,005)
Public safety	2,704,579	2,662,716	41,863
Highways and streets	846,844	817,780	29,064
Sanitation	151,420	153,121	(1,701)
Welfare	57,255	31,796	25,459
Culture and recreation	408,025	401,173	6,852
Conservation	4,600	4,653	(53)
Debt service	319,820	340,634	(20,814)
Capital outlay	<u>544,810</u>	<u>529,762</u>	<u>15,048</u>
Total Expenditures	<u>6,129,419</u>	<u>6,070,706</u>	<u>58,713</u>
Other financing sources (uses):			
Use of fund balance	45,000	45,000	-
Transfers in	353,060	348,302	(4,758)
Transfers out	<u>(274,000)</u>	<u>(274,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>124,060</u>	<u>119,302</u>	<u>(4,758)</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>98,540</u>	\$ <u>98,540</u>

See notes to financial statements.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Private Purpose Trust Fund	Agency Fund
<u>ASSETS</u>		
Cash and short-term investments	\$ <u>183,032</u>	\$ <u>25,712</u>
Total Assets	183,032	25,712
<u>LIABILITIES</u>		
Other liabilities	<u>-</u>	<u>25,712</u>
Total Liabilities	<u>-</u>	<u>25,712</u>
<u>NET ASSETS</u>		
Total net assets held in trust	\$ <u><u>183,032</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, 2012

	<u>Private Purpose Trust Fund</u>
Additions:	
Gifts and contributions	\$ 70,925
Investment income	<u>455</u>
Total additions	<u>71,380</u>
Deductions:	
General expenses	<u>92,404</u>
Total deductions	<u>92,404</u>
Net decrease	(21,024)
Net assets:	
Beginning of year	<u>204,056</u>
End of year	<u><u>\$ 183,032</u></u>

See notes to financial statements.

NORTH HAMPTON, NEW HAMPSHIRE

Notes to 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. In fiscal year 2012, 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 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.

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 enter-

prise 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)	\$ 6,227,329	\$ 5,898,926
Other financing sources/uses (GAAP Basis)	<u>10,206</u>	<u>413,236</u>
Subtotal (GAAP Basis)	6,237,535	6,312,162
Adjust tax revenue to accrual basis	(41,021)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(10,370)
Add end-of-year appropriation carryforwards from expenditures	-	14,875
To reverse the effect of non- budgeted activity	201,732	28,039
Recognize use of fund balance as funding source	<u>45,000</u>	<u>-</u>
Budgetary Basis	<u>\$ 6,443,246</u>	<u>\$ 6,344,706</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2012:

Mosquito fund	\$ (83,597)
Capital project fund	<u>(31,703)</u>
	<u>\$ (115,300)</u>

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, 2012, none of the Town's bank balance of \$ 10,502,595 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 lienied 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, 2012 consist of the following (in thousands):

Property taxes	\$ 2,181
Tax Liens	<u>310</u>
Total	<u>\$ 2,491</u>

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	\$ 218
Tax Liens	<u>31</u>
Total	<u>\$ 249</u>

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012.

8. 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, 2012 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Advance To Other Funds</u>	<u>Advance From Other Funds</u>
General Fund	\$ 261,271	\$ 388,122	\$ 115,300	\$ -
Nonmajor funds:				
Grants and revolving funds	31,247	-	-	-
Police Details	91,078	-	-	-
Recreation	36,892	-	-	-
Mosquito	-	4,499	-	87,801
PEG TV	54,342	74,003	-	-
Bandstand	-	302	-	-
Conservation	12,204	15,904	-	-
Capital project funds	-	4,204	-	27,499
Total	<u>\$ 487,034</u>	<u>\$ 487,034</u>	<u>\$ 115,300</u>	<u>\$ 115,300</u>

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 2012.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 10,286	\$ 413,236
Nonmajor funds:		
Police Details	-	10,286
Library	343,236	-
Mosquito	<u>70,000</u>	<u>-</u>
Total	<u>\$ 423,522</u>	<u>\$ 423,522</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows (in thousands):

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,080	\$ -	\$ -	\$ 3,080
Machinery, equipment, and furnishings	1,994	534	(41)	2,487
Infrastructure	<u>231</u>	<u>190</u>	<u>-</u>	<u>421</u>
Total capital assets, being depreciated	5,305	724	(41)	5,988
Less accumulated depreciation for:				
Buildings and improvements	(1,086)	(66)	-	(1,152)
Machinery, equipment, and furnishings	(1,328)	(144)	43	(1,429)
Infrastructure	<u>(91)</u>	<u>(27)</u>	<u>-</u>	<u>(118)</u>
Total accumulated depreciation	<u>(2,505)</u>	<u>(237)</u>	<u>43</u>	<u>(2,699)</u>
Total capital assets, being depreciated, net	2,800	487	2	3,289
Capital assets, not being depreciated:				
Land	7,382	-		7,382
Construction in progress	<u>25</u>	<u>-</u>	<u>(25)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>7,407</u>	<u>-</u>	<u>(25)</u>	<u>7,382</u>
Governmental activities capital assets, net	<u>\$ 10,207</u>	<u>\$ 487</u>	<u>\$ (23)</u>	<u>\$ 10,671</u>

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

Governmental Activities:	
General government	\$ 48
Public safety	115
Public works	69
Culture and recreation	<u>5</u>
Total depreciation expense - governmental activities	<u>\$ 237</u>

10. Accounts Payable

Accounts payable represent fiscal year 2012 expenditures paid after July 1, 2012.

11. 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, 2012 receivable balances, except property taxes that are accrued for subsequent 60-day collections.

12. Anticipation Notes Payable

The following summarizes activity in notes payable during fiscal year 2012:

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

13. 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, 2012:

Fiscal Year	Capital Leases
2013	\$ 98,790
2014	76,595
2015	65,075
2016	<u>35,914</u>
Total minimum lease payments	276,374
Less amounts representing interest	<u>(29,337)</u>
Present Value of Minimum Lease Payments	<u>\$ 247,037</u>

14. 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 6/30/12</u>
Public works facility	2028	4.0 - 5.0 %	\$ 640,000
Conservation land acquisition	2037	4.0 - 5.0 %	2,100,000
Conservation land acquisition	2017	4.50%	375,000
State of NH Project # 329-01	2019	3.20%	95,949
State of NH Project # 329-02	2020	2.80%	19,372
General obligation bond	2032	3.83%	<u>715,000</u>
Total Governmental Activities:			\$ <u><u>3,945,321</u></u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 191,128	\$ 157,624	\$ 348,752
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 - 2022	709,681	576,116	1,285,797
2023 - 2027	830,000	418,323	1,248,323
2028 - 2032	785,000	243,208	1,028,208
2033 - 2037	<u>620,000</u>	<u>87,402</u>	<u>707,402</u>
Total	\$ <u><u>3,945,321</u></u>	\$ <u><u>2,075,123</u></u>	\$ <u><u>6,020,444</u></u>

The general fund has been designated as the source to repay the general obligation long-term debt outstanding as of June 30, 2012.

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/11</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/12</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/12</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 3,396	\$ 715	\$ (166)	\$ 3,945	\$ (191)	\$ 3,754
Capital leases	166	193	(112)	247	(85)	162
Landfill closure	388	-	(23)	365	(23)	342
Accrued employee benefits	279	14	(107)	186	(9)	177
Net OPEB obligation	348	16	-	364	-	364
Totals	<u>\$ 4,577</u>	<u>\$ 938</u>	<u>\$ (408)</u>	<u>\$ 5,107</u>	<u>\$ (308)</u>	<u>\$ 4,799</u>

15. 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 \$ 365,047 reported as landfill closure and postclosure care liability at June 30, 2012 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.

16. 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.

17. **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, 2012:

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, 2012:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable			
Advances to other funds	\$ 115,300	\$ -	\$ 115,300
Nonexpendable permanent funds	<u>-</u>	<u>397,176</u>	<u>397,176</u>
Total Nonexpendable permanent funds	115,300	397,176	512,476
Restricted			
Grants and revolving funds	-	31,247	31,247
Police details	-	101,154	101,154
Recreation	-	34,917	34,917
Library	-	365,902	365,902
Heritage and sidewalk	-	5,727	5,727
PEG television	-	72,160	72,160
Bandstand	-	108,915	108,915
Cemetery	-	337	337
Conservation	-	507,115	507,115
Expendable permanent funds	<u>-</u>	<u>18,198</u>	<u>18,198</u>
Total Restricted	-	1,245,672	1,245,672
Committed			
Town buildings	28,928	-	28,928
Library building	211,607	-	211,607
Tennis court	32,121	-	32,121
Fire Department	455,586	-	455,586
Road reclamation	100,788	-	100,788
Coakley	366,345	-	366,345
Document management	42,410	-	42,410
Health stabilization fund	40,677	-	40,677
Accrued benefit liability	77,196	-	77,196
Earned time settlement fund	201	-	201
Paramedic training	24,044	-	24,044
Revaluation	<u>40,074</u>	<u>-</u>	<u>40,074</u>
Total Committed	1,419,977	-	1,419,977
Assigned			
General government	2,500	-	2,500
Public safety	3,285	-	3,285
Welfare	<u>9,090</u>	<u>-</u>	<u>9,090</u>
Total Assigned	14,875	-	14,875
Unassigned	<u>952,303</u>	<u>(115,300)</u>	<u>837,003</u>
Total Unassigned	<u>952,303</u>	<u>(115,300)</u>	<u>837,003</u>
Total Fund Balance	<u>\$ 2,502,455</u>	<u>\$ 1,527,548</u>	<u>\$ 4,030,003</u>

18. 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.

19. 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.

20. 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 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, 2012, 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 2012 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, 2012, 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, 2012.

Annual Required Contribution (ARC)	\$ 134,344
Interest on net OPEB obligation	-
Adjustment to ARC	<u>(118,063)</u>
Annual OPEB cost	16,281
Contributions made	<u>-</u>
Increase in net OPEB obligation	16,281
Net OPEB obligation - beginning of year	<u>347,168</u>
Net OPEB obligation - end of year	<u>\$ 363,449</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>
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, 2012 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, 2012, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 803,022
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 803,022</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 2,111,589</u>
UAAL as a percentage of covered payroll	<u>38%</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, 2012 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%.

21. 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 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, 2012, 2011, and 2010 were \$ 383,906, \$ 337,254, and \$ 319,884, respectively, which were equal to its annual required contributions for each of these years.

22. 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.

23. 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, 2012
(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]
01/01/12	\$ -	\$ 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.