

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2015

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INDEPENDENT AUDITORS' REPORT

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

Additional Offices:

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the 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, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Town's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.


Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Town of North Hampton, New Hampshire, as of June 30, 2015, and the respective changes in financial position, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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



December 21, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of North Hampton, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2015.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues. The governmental activities include general government, public safety, highways and streets, sanitation, 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 \$6,195,626 (i.e., net position), a change of \$1,180,503 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$4,121,658, a change of \$120,443 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,742,920, a change of \$419,241 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$3,361,937, a change of \$(196,128) 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 (in thousands).

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 13,464	\$ 12,651
Capital assets	11,866	11,689
Deferred outflows	<u>459</u>	<u>-</u>
Total assets and deferred outflows	25,789	24,341
Current liabilities	1,045	661
Noncurrent liabilities	9,233	4,851
Deferred inflows	<u>9,315</u>	<u>8,334</u>
Total assets and deferred inflows	19,593	13,846
Net position:		
Net investment in capital assets	8,265	7,773
Restricted	1,324	1,498
Unrestricted	<u>(3,393)</u>	<u>1,223</u>
Total net position	\$ <u>6,196</u>	\$ <u>10,494</u>

CHANGES IN NET POSITION

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Revenues:		
Program revenues:		
Charges for services	\$ 388	\$ 507
Operating grants and contributions	18	43
General revenues:		
Property taxes	5,596	4,868
Motor vehicle permits and fees	1,374	1,258
Grants and contributions not restricted to specific programs	347	312
Investment income	5	13
Other	<u>194</u>	<u>108</u>
Total revenues	7,922	7,109

(continued)

(continued)

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Expenses:		
General government	1,391	1,470
Public safety	3,128	3,040
Highways and streets	1,118	961
Sanitation	110	116
Health and welfare	80	90
Culture and recreation	766	610
Conservation	14	12
Interest on long-term debt	134	124
Total expenses	<u>6,741</u>	<u>6,423</u>
Change in net position	1,181	686
Net position - beginning of year, as restated	<u>5,015</u>	<u>9,808</u>
Net position - end of year	<u>\$ 6,196</u>	<u>\$ 10,494</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$6,195,626, a change of \$1,180,503 from the prior year.

The largest portion of net position, \$8,264,553, reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$1,323,947, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(3,392,874), primarily resulting from the Town's unfunded net pension liability (see footnotes 20 and 22).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$1,180,503. Key elements of this change are as follows:

General fund revenues and transfers in in excess of expenditures and transfers out	\$ 294,649
Special revenue fund expenditures and transfers out in excess of revenues and transfers in	(174,206)
Increase in capital assets from existing resources	533,884
Change in net pension liability	816,810
Other	<u>(290,634)</u>
Total	<u>\$ 1,180,503</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 \$4,121,658, a change of \$120,443 in comparison to the prior year. Key elements of this change are as follows:

General fund revenues and transfers in in excess of expenditures and transfers out	\$ 294,649
Special revenue fund expenditures and transfers out in excess of revenues and transfers in	<u>(174,206)</u>
Total	<u>\$ 120,443</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 \$1,742,920, while total fund balance was \$2,829,493. 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>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 1,742,920	\$ 1,323,679	\$ 419,241	26.6%
Total fund balance	\$ 2,829,493	\$ 2,534,844	\$ 294,649	43.2%

The total fund balance of the general fund changed by \$294,649 during the current fiscal year. Key factors in this change are as follows:

Revenues greater than budget	\$ 226,575
Expenditures less than budget	52,956
Tax collections as compared to budget	159,232
Expenditures of current year encumbrance over prior year encumbrance	10,218
Change in capital reserves	(151,989)
Other	<u>(2,343)</u>
Total	<u>\$ 294,649</u>

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

	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>
Capital reserve accounts	\$ <u>1,025,903</u>	\$ <u>1,177,892</u>	\$ <u>(151,989)</u>
Total	\$ <u>1,025,903</u>	\$ <u>1,177,892</u>	\$ <u>(151,989)</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 \$11,865,970 (net of accumulated depreciation), a change of \$177,076 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- Road Reconstruction \$255,120
- Clerk/Tax Collector's Office \$ 89,785
- Police – Ford Interceptor \$ 49,361
- Heating/Cooling System \$ 32,300

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 \$3,361,937, all of which was backed by the full faith and credit of the government.

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

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

FUTURE BUDGETARY IMPLICATIONS

The unassigned General Fund balance at the end of the 2015 fiscal year was \$1,742,920. This was a significant increase over the past year. The fund balance must support the irregular cash flow requirements of payments to the School, County, Village District and State for taxes collected on their behalf. The Select Board has identified significant activities or events, which will have impact on future Town finances, including:

1. The State of New Hampshire's responsibility for funding local education remains a subject of legislative debate and adjustment. Accordingly, the amount of state aid remains inconsistent and subject to annual fluctuation.
2. The Select Board continues to work on identifying the challenges associated with Town Facilities and the most cost effective way to meet them. Architects have designed a new public safety facility and space for Town Offices and the Library. The cost of implementing that design will be significant, but the cost of doing nothing will impose significant maintenance and energy costs in the coming years. The plan is likely to be on the 2016 Warrant for voters to approve.
3. The State of New Hampshire Retirement System is currently under funded by a significant amount. While the State Legislature has taken steps to address this issue, they have not addressed items such as the continuous funding of the health subsidies and cost-of-living adjustments for retired employees. Also, the System Trustees reduced the assumed rate of return on investments, placing an additional financial burden upon the Town. This could have a major impact on the contributions that the Town makes to the system on behalf of its employees.
4. Reported economic activity continues to increase nation-wide and in New Hampshire, although improvements have been uneven. It is not anticipated that the State will resume its past funding of revenue sharing programs, which may result in additional expenses for the Town or a reduction in services.
5. The Town completed a Town-wide property revaluation in 2013 in accordance with the NH State Constitution. The overall Town valuation only decreased approximately 0.5%, indicating that real estate values are recovering.
6. The collective bargaining agreement with the North Hampton Police Department is set to expire on June 30, 2016. The Town is actively negotiating another agreement.

7. Health insurance rates continue to rise intermittently at significant levels. The Town has agreements with its represented employees in the Police, Public Works and Fire Departments which resulted in a higher deductible plan which should promote health rate stability.
8. The Town currently receives its healthcare insurance from HealthTrust, formerly known as the Local Government Center (LGC). While HealthTrust suggests no major changes in the way health care coverage is provided, the effect of the Affordable Care Act presents future uncertainties regarding health care.

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

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental Activities
ASSETS	
Current:	
Cash and short-term investments	\$ 10,344,785
Investments	850,123
Receivables, net of allowance for uncollectibles:	
Property taxes	1,981,125
Departmental and other	80,205
Other assets	33,522
Internal balances	29,000
Noncurrent:	
Property taxes	144,961
Capital assets:	
Capital assets being depreciated, net of accumulated depreciation	3,984,231
Capital assets not being depreciated	7,881,739
DEFERRED OUTFLOWS OF RESOURCES	<u>458,671</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	25,788,362
LIABILITIES	
Current:	
Accounts payable	184,822
Accrued liabilities	302,337
Other current liabilities	220,611
Current portion of long-term liabilities:	
Bonds payable	206,128
Capital leases	98,469
Landfill liability	22,816
Accrued employee benefits	9,521
Noncurrent:	
Bonds payable, net of current portion	3,155,809
Capital leases, net of current portion	109,308
Landfill liability, net of current portion	273,783
Accrued employee benefits, net of current portion	180,897
Net OPEB obligation	410,162
Net pension liability	5,103,331
DEFERRED INFLOWS OF RESOURCES	<u>9,314,742</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	19,592,736
NET POSITION	
Net investment in capital assets	8,264,553
Restricted for:	
Grants and other statutory restrictions	866,313
Permanent funds:	
Nonexpendable	439,238
Expendable	18,396
Unrestricted	<u>(3,392,874)</u>
TOTAL NET POSITION	<u>\$ 6,195,626</u>

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

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for	Operating	Capital	
		Services	Grants and	Grants and	
			Contributions	Contributions	
	Expenses				Governmental Activities
Governmental Activities:					
General government	\$ 1,391,211	\$ 110,639	\$ -	\$ -	\$ (1,280,572)
Public safety	3,128,480	149,870	17,598	-	(2,961,012)
Highways and streets	1,117,826	-	-	-	(1,117,826)
Sanitation	110,006	12,000	-	-	(98,006)
Health and welfare	80,024	-	-	-	(80,024)
Culture and recreation	765,548	115,816	150	-	(649,582)
Conservation	14,451	-	-	-	(14,451)
Interest on long-term debt	133,646	-	-	-	(133,646)
Total Governmental Activities	\$ <u>6,741,192</u>	\$ <u>388,325</u>	\$ <u>17,748</u>	\$ <u>-</u>	(6,335,119)
General Revenues:					
Property taxes					5,595,676
Motor vehicle permits and fees					1,374,064
Grants and contributions not restricted to specific programs					347,285
Investment income					5,316
Other					<u>193,281</u>
Total general revenues					<u>7,515,622</u>
Change in Net Position					1,180,503
Net Position:					
Beginning of year, as restated					<u>5,015,123</u>
End of year					\$ <u><u>6,195,626</u></u>

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

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 10,094,679	\$ 1,100,229	\$ 11,194,908
Receivables:			
Property taxes	2,303,661	-	2,303,661
Departmental and other	33,201	47,003	80,204
Due from other funds	1,170,200	405,970	1,576,170
Advances to other funds	31,703	-	31,703
Other assets	17,181	16,342	33,523
TOTAL ASSETS	<u>\$ 13,650,625</u>	<u>\$ 1,569,544</u>	<u>\$ 15,220,169</u>
LIABILITIES			
Accounts payable	\$ 155,538	\$ 29,284	\$ 184,822
Retainage payable	193,698	-	193,698
Due to other funds	1,384,342	162,828	1,547,170
Advances from other funds	-	31,703	31,703
Due to other governments	6,323	-	6,323
Other liabilities	207,728	6,560	214,288
TOTAL LIABILITIES	1,947,629	230,375	2,178,004
DEFERRED INFLOWS OF RESOURCES	8,873,503	47,004	8,920,507
FUND BLANCES			
Nonspendable	48,882	457,557	506,439
Restricted	-	866,311	866,311
Committed	1,025,903	-	1,025,903
Assigned	11,788	-	11,788
Unassigned	1,742,920	(31,703)	1,711,217
TOTAL FUND BALANCES	<u>2,829,493</u>	<u>1,292,165</u>	<u>4,121,658</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 13,650,625</u>	<u>\$ 1,569,544</u>	<u>\$ 15,220,169</u>

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

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2015

Total governmental fund balances	\$ 4,121,658
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,865,970
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	137,668
<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.	(108,639)
<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.	<u>(9,821,031)</u>
Net position of governmental activities	<u><u>\$ 6,195,626</u></u>

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

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 5,207,538	\$ 25,300	\$ 5,232,838
Licenses and permits	1,374,064	-	1,374,064
Intergovernmental	364,883	-	364,883
Charges for services	67,381	316,955	384,336
Investment income	4,028	1,288	5,316
Miscellaneous	<u>184,302</u>	<u>8,279</u>	<u>192,581</u>
Total Revenues	7,202,196	351,822	7,554,018
Expenditures:			
Current:			
General government	1,519,141	133,273	1,652,414
Public safety	3,110,990	54,479	3,165,469
Highways and streets	885,223	-	885,223
Sanitation	132,822	-	132,822
Welfare	18,525	-	18,525
Culture and recreation	57,068	702,254	759,322
Conservation	14,451	-	14,451
Debt service	453,533	-	453,533
Capital outlay	<u>351,816</u>	<u>-</u>	<u>351,816</u>
Total Expenditures	<u>6,543,569</u>	<u>890,006</u>	<u>7,433,575</u>
Excess (deficiency) of revenues over (under) expenditures	658,627	(538,184)	120,443
Other Financing Sources (Uses):			
Transfers in	75,500	439,478	514,978
Transfers out	<u>(439,478)</u>	<u>(75,500)</u>	<u>(514,978)</u>
Total Other Financing Sources (Uses)	<u>(363,978)</u>	<u>363,978</u>	<u>-</u>
Changes in fund balances	294,649	(174,206)	120,443
Fund Balances, at Beginning of Year	<u>2,534,844</u>	<u>1,466,371</u>	<u>4,001,215</u>
Fund Balances, at End of Year	<u>\$ 2,829,493</u>	<u>\$ 1,292,165</u>	<u>\$ 4,121,658</u>

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

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

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

FOR THE YEAR ENDED JUNE 30, 2015

Net change in fund balances - total governmental funds	\$ 120,443
<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	533,884
Depreciation	(356,808)
<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. 	
	367,677
<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 position: 	
Repayments of debt	196,128
Repayments of leases	149,791
<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. 	
	6,652
<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. 	
	<u>162,736</u>
Change in net position of governmental activities	\$ <u><u>1,180,503</u></u>

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

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2015

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 5,048,306	\$ 5,048,306	\$ 5,048,306	\$ -
Licenses and permits	1,192,125	1,192,125	1,374,064	181,939
Intergovernmental	300,706	300,706	301,515	809
Charges for services	27,695	27,695	38,351	10,656
Investment income	3,000	3,000	2,158	(842)
Miscellaneous	10,600	10,600	44,613	34,013
Transfers in	<u>105,500</u>	<u>105,500</u>	<u>105,500</u>	<u>-</u>
Total Revenues	6,687,932	6,687,932	6,914,507	226,575
Expenditures:				
Current:				
General government	1,230,095	1,230,095	1,240,511	(10,416)
Public safety	2,961,114	2,961,114	2,931,373	29,741
Highways and streets	865,940	865,940	883,599	(17,659)
Sanitation	157,220	157,220	132,822	24,398
Welfare	33,255	33,255	18,525	14,730
Culture and recreation	59,477	59,477	57,068	2,409
Conservation	15,300	15,300	14,451	849
Debt service	453,553	453,553	453,533	20
Capital outlay	327,500	327,500	318,616	8,884
Transfers out	<u>584,478</u>	<u>584,478</u>	<u>584,478</u>	<u>-</u>
Total Expenditures	<u>6,687,932</u>	<u>6,687,932</u>	<u>6,634,976</u>	<u>52,956</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>279,531</u>	\$ <u>279,531</u>

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

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

	Private Purpose Trust Fund	Agency Fund
<u>ASSETS</u>		
Cash and short-term investments	\$ <u>337,167</u>	\$ <u>35,896</u>
Total Assets	337,167	35,896
<u>LIABILITIES</u>		
Due to other funds	28,000	1,000
Other liabilities	<u>-</u>	<u>34,896</u>
Total Liabilities	<u>28,000</u>	<u>35,896</u>
<u>NET POSITION</u>		
Total net position held in trust	\$ <u><u>309,167</u></u>	\$ <u><u>-</u></u>

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

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Private Purpose Trust Fund</u>
Additions:	
Gifts and contributions	\$ 151,169
Deductions:	
General expenses	<u>85,301</u>
Net change	65,868
Net position:	
Beginning of year	<u>243,299</u>
End of year	<u><u>\$ 309,167</u></u>

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

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 2015, it was determined that no entities met the required GASB 14 (as amended) 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 Position and the Statement of Activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of inter-fund activity has been removed from these statements.

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

Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The government reports the following major governmental funds:

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

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

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

D. Cash and Short-Term Investments

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

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

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, are reported 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 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, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position.

J. Fund Equity

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

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

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

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

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

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

K. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 7,202,196	\$ 6,543,569
Other financing sources/uses (GAAP Basis)	<u>75,500</u>	<u>439,478</u>
Subtotal (GAAP Basis)	7,277,696	6,983,047
Adjust tax revenue to accrual basis	(159,232)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,570)
Add end-of-year appropriation carryforwards from expenditures	-	11,788
To eliminate capital reserve activity	(6,585)	(158,574)
To record other GAAP timing differences	<u>(197,372)</u>	<u>(199,715)</u>
Budgetary Basis	\$ <u><u>6,914,507</u></u>	\$ <u><u>6,634,976</u></u>

D. Deficit Fund Equity

The following fund had a deficit as of June 30, 2015:

Capital project fund	\$ (31,703)
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The deficit in this fund will be eliminated through future transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk – Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be returned.

Pursuant to NH Statute, “the treasurer shall insure that prior to acceptance of any moneys for deposit or investment, including repurchase agreements, the federally insured bank shall make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated

for the exclusive benefit of the Town.” The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2015, none of the Town’s bank balance of \$11,574,254 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, 2015 consist of the following:

Real Estate	
2015	\$ 1,980,284
Timber tax	841
Unredeemed taxes	
2014 tax liens	154,766
2013 tax liens	72,239
2012 and prior	39,286
Elderly liens	<u>56,245</u>
Total	<u>\$ 2,303,661</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:

Property taxes	\$ 177,575
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7. Interfund Fund Receivables/Payables and Transfers In/Out

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2015 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	\$ 1,170,200	\$ 1,384,342	\$ 31,703	\$ -
Nonmajor funds:				
Grants and revolving funds	37,504	-	-	-
Police Details	64,158	55,873	-	-
Recreation	119,914	95,162	-	-
Mosquito	14,250	-	-	-
Heritage & Sidewalk	237	-	-	-
PEG TV	54,342	7,380	-	-
Bandstand	-	-	-	-
Ambulance operating	-	3,064	-	-
Ambulance capital	100,243	324	-	-
Conservation	15,322	-	-	-
Capital project funds	-	-	-	31,703
Permanent trust funds	-	1,025	-	-
Private Purpose	-	28,000	-	-
Agency	-	1,000	-	-
Total	<u>\$ 1,576,170</u>	<u>\$ 1,576,170</u>	<u>\$ 31,703</u>	<u>\$ 31,703</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 2015.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 75,500	\$ 439,478
Nonmajor funds:		
Police Details	-	75,500
Library	364,478	-
Mosquito	75,000	-
Total	<u>\$ 514,978</u>	<u>\$ 514,978</u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,080	\$ 122	\$ -	\$ 3,202
Machinery, equipment, and furnishings	2,691	145	-	2,836
Infrastructure	884	267	-	1,151
Total capital assets, being depreciated	6,655	534	-	7,189
Less accumulated depreciation for:				
Buildings and improvements	(1,284)	(67)	-	(1,351)
Machinery, equipment, and furnishings	(1,369)	(207)	-	(1,576)
Infrastructure	(195)	(83)	-	(278)
Total accumulated depreciation	(2,848)	(357)	-	(3,205)
Total capital assets, being depreciated, net	3,807	177	-	3,984
Capital assets, not being depreciated:				
Land	7,882	-	-	7,882
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	7,882	-	-	7,882
Governmental activities capital assets, net	<u>\$ 11,689</u>	<u>\$ 177</u>	<u>\$ -</u>	<u>\$ 11,866</u>

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

Governmental Activities:	
General government	\$ 41
Public safety	154
Highways & streets	157
Culture and recreation	5
Total depreciation expense - governmental activities	<u>\$ 357</u>

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2015:

	<u>Entity-wide Basis</u> <u>Governmental</u> <u>Activities</u>
Pension contributions subsequent to the measurement date	\$ <u>458,671</u>
Total	\$ <u><u>458,671</u></u>

10. Accounts Payable

Accounts payable represent fiscal year 2015 expenditures paid after July 1, 2015.

11. Capital Lease Obligations

The Town is the lessee of certain equipment under capital and operating leases expiring in various years through 2019. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2015:

<u>Fiscal</u> <u>Year</u>	<u>Capital</u> <u>Leases</u>
2016	\$ 106,194
2017	41,030
2018	25,300
2018	25,300
2019	<u>25,300</u>
Total minimum lease payments	223,124
Less amounts representing interest	<u>(15,347)</u>
Present Value of Minimum Lease Payments	\$ <u><u>207,777</u></u>

12. 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:

	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/15</u>
<u>Governmental Activities:</u>			
Public works facility	2028	4.0 - 5.0 %	\$ 550,000
Conservation land acquisition	2037	4.0 - 5.0 %	1,955,000
Conservation land acquisition	2017	4.50%	150,000
State of NH Project # 329-01	2019	3.20%	54,828
State of NH Project # 329-02	2020	2.80%	12,109
General obligation bond	2032	3.83%	<u>640,000</u>
Total Governmental Activities:			<u>\$ 3,361,937</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2015 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 206,128	\$ 143,925	\$ 350,053
2017	211,128	134,730	345,858
2018	141,128	127,000	268,128
2019	141,128	121,143	262,271
2020	137,425	112,162	249,587
2021 - 2025	770,000	466,881	1,236,881
2026 - 2030	820,000	305,533	1,125,533
2031 - 2035	670,000	147,726	817,726
2036 - 2038	<u>265,000</u>	<u>18,002</u>	<u>283,002</u>
Total	<u>\$ 3,361,937</u>	<u>\$ 1,577,102</u>	<u>\$ 4,939,039</u>

The general fund has been designated as the source to repay the general obligation long-term debt outstanding as of June 30, 2015.

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/14	Additions	Reductions	Total Balance 6/30/15	Less Current Portion	Equals Long-Term Portion 6/30/15
<u>Governmental Activities</u>						
Bonds payable	\$ 3,558	\$ -	\$ (196)	\$ 3,362	\$ (206)	\$ 3,156
Capital leases	358	-	(150)	208	(99)	109
Landfill closure	320	-	(23)	297	(23)	274
Accrued employee benefits	215	-	(24)	191	(10)	181
Net OPEB obligation	400	141	(131)	410	-	410
Net pension liability	<u>5,920</u>	<u>-</u>	<u>(817)</u>	<u>5,103</u>	<u>-</u>	<u>5,103</u>
Totals	<u>\$ 10,771</u>	<u>\$ 141</u>	<u>\$ (1,341)</u>	<u>\$ 9,571</u>	<u>\$ (338)</u>	<u>\$ 9,233</u>

13. 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 \$296,599 reported as landfill closure and postclosure care liability at June 30, 2015 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.

14. Deferred Inflows of Resources

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

The following is a summary of deferred inflow of resources balances as of June 30, 2015:

	<u>Entity-wide Basis</u>		
	<u>Governmental</u>	<u>Governmental Funds</u>	
	<u>Activities</u>	<u>General Fund</u>	<u>Nonmajor</u>
Unavailable revenues	\$ 4,693	\$ 272,932	\$ 47,004
Taxes levied in advance	1,980,284	1,980,284	-
Taxes collected in advance	6,620,287	6,620,287	-
Net difference between projected and actual pension investment earnings	652,975	-	-
Changes in proportion and differences between pension contributions and proportionate share of contributions	56,503	-	-
Total	<u>\$ 9,314,742</u>	<u>\$ 8,873,503</u>	<u>\$ 47,004</u>

15. **Restricted Net Position**

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

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

16. **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, 2015:

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, 2015:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable			
Prepaid expenditures	\$ 17,179	\$ -	\$ 17,179
Advances to other funds	31,703	-	31,703
Nonexpendable permanent funds	<u>-</u>	<u>457,557</u>	<u>457,557</u>
Total Nonexpendable permanent funds	48,882	457,557	506,439
Restricted			
Grants and revolving funds	-	37,224	37,224
Police details	-	8,425	8,425
Recreation	-	20,939	20,939
Library	-	100,057	100,057
Mosquito	-	49,245	49,245
Heritage and sidewalk	-	7,845	7,845
PEG television	-	199,434	199,434
Bandstand	-	100,052	100,052
Ambulance operating	-	420	420
Ambulance capital	-	185,577	185,577
Conservation	<u>-</u>	<u>157,093</u>	<u>157,093</u>
Total Restricted	-	866,311	866,311
Committed			
Building maintenance	4,250	-	4,250
Library building	257,857	-	257,857
Tennis court	32,285	-	32,285
Road reclamation	857	-	857
Town buildings	161,786	-	161,786
Coakley	276,765	-	276,765
Document management	40,682	-	40,682
Health stabilization	116,090	-	116,090
Accrued benefit liability	21,071	-	21,071
Earned time settlement	10,325	-	10,325
Paramedic training	24,169	-	24,169
Revaluation	33,581	-	33,581
Municipal transportation	42,685	-	42,685
Information technology	<u>3,500</u>	<u>-</u>	<u>3,500</u>
Total Committed	1,025,903	-	1,025,903
Assigned			
For encumbrances			
Public works	<u>11,788</u>	<u>-</u>	<u>11,788</u>
Total Assigned	11,788	-	11,788
Unassigned	<u>1,742,920</u>	<u>(31,703)</u>	<u>1,711,217</u>
Total Unassigned	<u>1,742,920</u>	<u>(31,703)</u>	<u>1,711,217</u>
Total Fund Balance	<u>\$ 2,829,493</u>	<u>\$ 1,292,165</u>	<u>\$ 4,121,658</u>

17. **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.

GAAP basis balance	\$ 1,742,920
Unavailable revenue	272,932
Allowance for doubtful accounts	<u>(65,000)</u>
Tax Rate Setting Balance	<u>\$ 1,950,852</u>

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.

Abatements - There are several cases pending before the New Hampshire Superior Court and Bureau of Tax and Land Appeals in regard to alleged discrepancies in property assessments. According to the Town's counsel, the probable outcome of these cases at the present time is indeterminable, 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 a required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather

than when they use their post-employment benefit. To the extent that an entity does not fund their required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by RSA 100-A:50. As of June 30, 2015, the valuation date, approximately 15 retirees and 35 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 2015 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount determined using the alternative measurement method 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 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, 2015, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on the alternative measurement method of valuation as of June 30, 2015.

Annual Required Contribution (ARC)	\$ 211,687
Adjustment to ARC	<u>(70,715)</u>
Annual OPEB cost	140,972
Contributions made	<u>(131,282)</u>
Increase in net OPEB obligation	9,690
Net OPEB obligation - beginning of year	<u>400,472</u>
Net OPEB obligation - end of year	<u><u>\$ 410,162</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 140,972	93.1%	\$ 410,162
2014	\$ 117,524	79.6%	\$ 400,472
2013	\$ 13,049	80.5%	\$ 360,217
2012	\$ 16,281	64.3%	\$ 363,449
2011	\$ 173,584	39.6%	\$ 347,168

The Town's net OPEB obligation as of June 30, 2015 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 June 30, 2015, the date of the most recent valuation, was as follows:

Accrued liability (AL)	\$ 1,299,690
Value of plan assets	<u>-</u>
Unfunded accrued liability (UAL)	<u><u>\$ 1,299,690</u></u>
Funded ratio (value of plan assets/AL)	<u><u>0%</u></u>
Covered payroll (active plan members)	<u><u>\$ 2,345,323</u></u>
UAL as a percentage of covered payroll	<u><u>55%</u></u>

Alternative measurement method valuations of an ongoing plan are allowed for a sole employer with fewer than one hundred total plan members and involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future, similar to the broad measurement steps as would be used by an

actuarial valuation for plans whose members exceed one hundred. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past 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 value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

F. Alternative Measurement 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 methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2015 valuation, the alternative measurement method was used. The value of assets was not determined, as the Town has not advance funded its obligation. The amortization costs for the initial UAL is a level percentage of payroll for a period of 30 years, on a closed basis.

20. Retirement System

The Town follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the State of New Hampshire Retirement System (NHRS).

A. Plan Description

Full-time employees participate in the New Hampshire Retirement System (NHRS), a cost sharing, multiple-employer defined benefit contributory pension plan and trust established in 1967 by RSA 100-A:2 and 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. Additional information is disclosed in the NHRS annual report publicly available from the New Hampshire Retirement System located at 54 Regional Drive, Concord, New Hampshire 03301-8507.

B. Benefits Provided

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is $1/60$ or 1.667% of average final compensation (AFC), multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at $1/66$ or 1.515% of AFC multiplied by years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have a nonvested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the benefit commencement date precedes the month after which the member attains 52.5 years of age by $\frac{1}{4}$ of 1% or age 60.

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

C. Contributions

Plan members are required to contribute a percentage of their gross earnings to the pension plan, for which the contribution rates are 7% for employees and teachers, 11.55% for police and 11.80% for fire. The Town makes annual contributions to the pension plan equal to the amount

required by Revised Statutes Annotated 100-A:16, and range from 10.77% to 27.74% of covered compensation. The Town's contributions to NHRS for the years ended June 30, 2015, was \$458,671, which is equal to its annual required contribution.

D. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the NHRS and additions to/deductions from NHRS' fiduciary net position have been determined on the same basis as they are reported by NHRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

E. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Town reported a liability of \$5,103,331 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2013, the Town's proportion was 0.13755663 percent.

At the most recent measurement date of June 30, 2014, the Town's proportion was 0.13595883 percent, which was a decrease of .0015978 from its previous year proportion.

For the year ended June 30, 2015, the Town recognized pension expense of \$333,750. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 652,975
Changes in proportion and differences between contributions and proportionate share of contributions	-	56,503
Contributions subsequent to the measurement date	<u>458,671</u>	<u>-</u>
Total	<u>\$ 458,671</u>	<u>\$ 709,478</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$ 960,285
2017	(175,507)
2018	(175,507)
2019	(175,507)
2020	(175,509)
Thereafter	<u>(7,448)</u>
Total	<u>\$ 250,807</u>

Actuarial assumptions: The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent per year
Salary increases	3.75 - 5.8 percent average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for woman for mortality improvements.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2005 – June 30, 2010.

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

<u>Asset Class</u>	<u>Target Allocation Percentage</u>	<u>Weighted Average Average Long- Term Expected Real Rate of Return</u>
Large Cap Equities	22.50 %	3.25%
Small/Mid Cap Equities	<u>7.50</u>	3.25%
Total domestic equities	30.00	
Int'l Equities (unhedged)	13.00	4.25%
Emerging Int'l Equities	<u>7.00</u>	6.50%
Total international equities	20.00	
Core Bonds	18.00	-0.47%
High-Yield Bonds	1.50	1.50%
Global Bonds (unhedged)	5.00	-1.75%
Emerging Market Debt (external)	<u>0.50</u>	2.00%
Total fixed income	25.00	
Private equity	5.00	5.75%
Private debt	5.00	5.00%
Real estate	10.00	3.25%
Opportunistic	<u>5.00</u>	2.50%
Total alternative investments	<u>25.00</u>	
Total	<u><u>100.00</u></u> %	

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the pension plan's actuarial funding policy and as required by RSA 100-A:16. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.75%) or one percentage-point higher (8.75%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
June 30, 2014	\$ 6,721,918	\$ 5,103,331	\$ 3,737,811

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued NHRS financial report.

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 Net Position Restatement**

The beginning (July 1, 2014) net position of the Town has been restated as follows:

Government-Wide Financial Statements:

	<u>Governmental Activities</u>
As previously reported	\$ 10,494,182
GASB 68 Implementation	<u>(5,479,059)</u>
As restated	<u><u>\$ 5,015,123</u></u>

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

June 30, 2015
(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>
06/30/15	\$ -	\$ 1,299,690	\$ 1,299,690	0.0%	\$ 2,345,323	55%
06/30/14	\$ -	\$ 1,047,760	\$ 1,047,760	0.0%	\$ 2,277,013	46%
06/30/13	\$ -	\$ 728,825	\$ 728,825	0.0%	\$ 2,210,692	33%
06/30/12	\$ -	\$ 803,022	\$ 803,022	0.0%	\$ 2,111,589	38%
06/30/11	\$ -	\$ 1,037,576	\$ 1,037,576	0.0%	\$ 2,083,508	50%

See Independent Auditors' Report.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

**SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2015
(Unaudited)**

<u>New Hampshire Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	0.13595883%
Proportionate share of the net pension liability for the most recent measurement date	\$ 5,103,331
Covered-employee payroll for the most recent measurement date	\$ 2,320,089
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	219.96%
Plan fiduciary net position as a percentage of the total pension liability	66.32%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

**SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2015
(Unaudited)**

<u>New Hampshire Retirement System:</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 458,671
Contributions in relation to the contractually required contribution	<u>(458,671)</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>
Covered-employee payroll for the current fiscal year	\$ 2,415,803
Contributions as a percentage of covered-employee payroll	18.99%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.