

**TOWN OF HOLDERNESS, NEW HAMPSHIRE**

**Annual Financial Statements**

**For the Year Ended June 30, 2017**

**Town of Holderness, New Hampshire**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Holderness, New Hampshire

### **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 Holderness, NH, as of and for the year ended June 30, 2017, 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.

### **Auditors' 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, each major fund, and the aggregate remaining fund information of the Town of Holderness, New Hampshire, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Pension schedules appearing on pages 39 to 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

*Melanson Heath*

January 22, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Town of Holderness, NH, we offer readers this narrative overview and analysis of the financial activities of the Town of Holderness, New Hampshire for the fiscal year ended June 30, 2017.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to basic financial statements. The basic financial statements comprise 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, liabilities, and deferred inflows/outflows of resources, with the difference 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 Town'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 (governmental activities). The governmental activities include general government, public safety, highways and streets, sanitation, health and human service, welfare, culture and recreation, and conservation.

**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.

**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 and deferred outflows exceeded liabilities and deferred inflows by \$6,643,122 (i.e., net position), a change of \$943,403 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$2,532,432 a change of \$(17,262) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,441,026, a change of \$63,495 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 fiscal year.

NET POSITION

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 7,583,754	\$ 7,455,678
Capital assets	<u>5,401,826</u>	<u>4,571,132</u>
Total assets	12,985,580	12,026,810
Deferred outflows	527,606	208,138
Current liabilities	124,170	3,976,114
Noncurrent liabilities	<u>1,743,825</u>	<u>1,558,194</u>
Total liabilities	1,867,995	5,534,308
Deferred inflows	5,002,069	1,000,921
Net position:		
Net investment in capital assets	5,343,493	4,525,131
Restricted	91,585	14,088
Unrestricted	<u>1,208,044</u>	<u>1,160,500</u>
Total net position	\$ <u>6,643,122</u>	\$ <u>5,699,719</u>

CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Charges for services	\$ 225,554	\$ 204,322
Operating grants and contributions	11	71,134
General revenues:		
Property taxes	1,716,975	1,856,341
Motor vehicle permits	505,668	543,437
Penalties and interest on taxes	54,997	-
Grants and contributions not restricted to specific programs	854,688	105,792
Investment income	25,708	19,034
Miscellaneous revenue	<u>128,508</u>	<u>67,015</u>
Total revenues	3,512,109	2,867,075

(continued)

(continued)

CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Expenses:		
General government	843,778	781,473
Public safety	784,103	749,952
Highway and streets	485,906	455,335
Sanitation	193,782	190,553
Health and human services	35,970	29,819
Welfare	5,691	4,190
Culture and recreation	215,298	196,949
Conservation	4,026	2,888
Interest expense	152	3,210
Capital outlay	-	79,869
Total expenses	<u>2,568,706</u>	<u>2,494,238</u>
Change in net position	943,403	372,837
Net position - beginning of year	<u>5,699,719</u>	<u>5,326,882</u>
Net position - end of year	<u>\$ 6,643,122</u>	<u>\$ 5,699,719</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 year, total net position was \$6,643,122, a change of \$943,403 from the prior year.

The largest portion of net position \$5,343,493 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 \$91,585 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$1,208,044 may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$943,403. Key elements of this change are as follows:

General fund operating results, as discussed further in Section D	\$ (20,927)
Non-major funds operating results	3,665
Depreciation expense in excess of principal debt service	(149,896)
Capital assets acquired	1,068,258
Change in long-term liabilities	(336,906)
Other	<u>379,209</u>
Total	<u>\$ 943,403</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 \$2,532,432, a change of \$(17,262) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ (20,927)
Non-major funds operating results	<u>3,665</u>
Total	<u>\$ (17,262)</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 \$1,441,026, while total fund balance was \$2,440,847. 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>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 1,441,026	\$ 1,377,531	\$ 63,495	42.0%
Total fund balance	\$ 2,440,847	\$ 2,461,774	\$ (20,927)	71.1%

The fund balance of the general fund changed by \$(20,927) during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 181,502
Expenditures less than budget	141,674
Tax collections compared to budget	(122,460)
Current year encumbrances in excess of prior year	11,618
Use of fund balance as a funding source	(345,000)
Change in capital reserves	<u>111,739</u>
Total	<u>\$ (20,927)</u>

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

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
Capital Reserve	\$ <u>982,881</u>	\$ <u>871,142</u>	\$ <u>111,739</u>
Total	\$ <u>982,881</u>	\$ <u>871,142</u>	\$ <u>111,739</u>

**E. GENERAL FUND BUDGETARY HIGHLIGHTS**

There were no differences 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 \$5,401,826 (net of accumulated depreciation). 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:

Library Addition	\$ 871,302
Public Safety Building	\$ 305,836
East Holderness Road Paving	\$ 58,771
F-350 Pickup Truck with Plow	\$ 54,218

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 \$58,333, 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.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Holderness' 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:

Board of Selectmen  
Town of Holderness  
P.O. Box 203, Holderness  
Holderness, New Hampshire 03245  
(603) 968-3537

TOWN OF HOLDERNESS, NEW HAMPSHIRE

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental <u>Activities</u>
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 5,066,596
Investments	251,731
Restricted cash	982,881
Receivables, net of allowance for uncollectibles:	
Property taxes	1,159,074
Other assets	3,740
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	119,732
Land and construction in progress	1,296,888
Other capital assets, net of accumulated depreciation	4,104,938
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions	<u>527,606</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
	13,513,186
<b>LIABILITIES</b>	
Current:	
Accounts payable	13,531
Accrued expenses	22,681
Other current liabilities	24,351
Current portion of long-term liabilities:	
Bonds payable	58,333
Other	5,274
Noncurrent:	
Net pension liability	1,696,354
Other, net of current portion	47,471
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pensions	131,042
Unavailable revenues	<u>4,871,027</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	
	6,870,064
<b>NET POSITION</b>	
Net investment in capital assets	5,343,493
Restricted for:	
Special purposes	77,401
Permanent funds	
Nonexpendable	4,750
Expendable	9,434
Unrestricted	<u>1,208,044</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 6,643,122</u></u>

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



TOWN OF HOLDERNESS, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 5,052,412	\$ 14,184	\$ 5,066,596
Investments	251,731	-	251,731
Restricted cash	982,881	-	982,881
Receivables:			
Property taxes	1,304,331	-	1,304,331
Due from other funds	-	77,401	77,401
Other assets	<u>3,740</u>	<u>-</u>	<u>3,740</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 7,595,095</u></b>	<b><u>\$ 91,585</u></b>	<b><u>\$ 7,686,680</u></b>
<b>LIABILITIES</b>			
Accounts payable	\$ 13,531	\$ -	\$ 13,531
Accrued liabilities	22,681	-	22,681
Due to other funds	77,401	-	77,401
Other liabilities	<u>24,351</u>	<u>-</u>	<u>24,351</u>
<b>TOTAL LIABILITIES</b>	<b>137,964</b>	<b>-</b>	<b>137,964</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenues	5,016,284	-	5,016,284
<b>FUND BALANCES</b>			
Nonspendable	3,740	4,750	8,490
Restricted	-	86,835	86,835
Committed	982,881	-	982,881
Assigned	13,200	-	13,200
Unassigned	<u>1,441,026</u>	<u>-</u>	<u>1,441,026</u>
<b>TOTAL FUND BALANCES</b>	<b><u>2,440,847</u></b>	<b><u>91,585</u></b>	<b><u>2,532,432</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ 7,595,095</u></b>	<b><u>\$ 91,585</u></b>	<b><u>\$ 7,686,680</u></b>

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

TOWN OF HOLDERNESS, NEW HAMPSHIRE

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

JUNE 30, 2017

<b>Total governmental fund balances</b>	\$ 2,532,432
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	5,401,826
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	119,732
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, net pension liability, net OPEB liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	(1,807,432)
<ul style="list-style-type: none"><li>• Other</li></ul>	<u>396,564</u>
<b>Net position of governmental activities</b>	<u><u>\$ 6,643,122</u></u>

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

TOWN OF HOLDERNESS, NEW HAMPSHIRE  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 1,702,225	\$ -	\$ 1,702,225
Charges for services	161,626	28,397	190,023
Intergovernmental	179,935	-	179,935
Licenses and permits	541,199	-	541,199
Investment income	25,612	96	25,708
Miscellaneous	<u>803,272</u>	<u>-</u>	<u>803,272</u>
Total Revenues	3,413,869	28,493	3,442,362
<b>Expenditures:</b>			
Current:			
General government	768,291	-	768,291
Public safety	680,726	10,940	691,666
Highway and streets	293,881	-	293,881
Sanitation	184,123	-	184,123
Health and human services	35,970	-	35,970
Welfare	5,691	-	5,691
Culture and recreation	199,348	13,888	213,236
Conservation	4,026	-	4,026
Debt service	90,888	-	90,888
Capital outlay	<u>1,171,852</u>	<u>-</u>	<u>1,171,852</u>
Total Expenditures	<u>3,434,796</u>	<u>24,828</u>	<u>3,459,624</u>
Excess (deficiency) of revenues over expenditures	(20,927)	3,665	(17,262)
Fund Equity, at Beginning of Year	<u>2,461,774</u>	<u>87,920</u>	<u>2,549,694</u>
Fund Equity, at End of Year	<u>\$ 2,440,847</u>	<u>\$ 91,585</u>	<u>\$ 2,532,432</u>

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

TOWN OF HOLDERNESS, 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, 2017

<b>Net changes in fund balances - total governmental funds</b>	\$ (17,262)												
<ul style="list-style-type: none"> <li>• 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: <table style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;">Capital outlay</td> <td style="text-align: right;">1,068,258</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(237,564)</td> </tr> </table> </li> <li>• The issuance of long-term debt (e.g., bonds) 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: <table style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;">Repayments of debt</td> <td style="text-align: right;">87,668</td> </tr> <tr> <td>Change in net pension liability</td> <td style="text-align: right;">(334,394)</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">306,950</td> </tr> </table> </li> <li>• 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 tax) differ between the two statements. This amount represents the net change in deferred revenue. <table style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;"><u>69,747</u></td> </tr> </table> </li> </ul>		Capital outlay	1,068,258	Depreciation	(237,564)	Repayments of debt	87,668	Change in net pension liability	(334,394)	Other	306,950		<u>69,747</u>
Capital outlay	1,068,258												
Depreciation	(237,564)												
Repayments of debt	87,668												
Change in net pension liability	(334,394)												
Other	306,950												
	<u>69,747</u>												
<b>Change in net position of governmental activities</b>	<u><u>\$ 943,403</u></u>												

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

TOWN OF HOLDERNESS, NEW HAMPSHIRE

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 1,769,688	\$ 1,769,688	\$ 1,769,688	\$ -
Interest, penalties and other taxes	38,000	38,000	54,997	16,997
Charges for service	168,800	168,800	161,626	(7,174)
Licenses and permits	420,635	420,635	541,199	120,564
Intergovernmental	179,934	179,934	179,935	1
Investment income	15,025	15,025	18,507	3,482
Miscellaneous	708,300	708,300	803,272	94,972
Transfers in	346,206	346,206	298,866	(47,340)
Use of fund balance	<u>345,000</u>	<u>345,000</u>	<u>345,000</u>	<u>-</u>
Total Revenues and Other Sources	3,991,588	3,991,588	4,173,090	181,502
<b>Expenditures and Other Uses:</b>				
General government	810,740	810,740	778,291	32,449
Public safety	686,448	686,448	683,926	2,522
Highway and streets	319,009	319,009	293,881	25,128
Sanitation	198,250	198,250	184,123	14,127
Health and human services	31,671	31,671	34,388	(2,717)
Welfare	25,000	25,000	5,691	19,309
Culture and recreation	200,713	200,713	199,348	1,365
Conservation	4,255	4,255	4,026	229
Debt service	90,796	90,796	90,888	(92)
Capital outlay	1,221,206	1,221,206	1,171,852	49,354
Transfers out	<u>403,500</u>	<u>403,500</u>	<u>403,500</u>	<u>-</u>
Total Expenditures and Other Uses	<u>3,991,588</u>	<u>3,991,588</u>	<u>3,849,914</u>	<u>141,674</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>323,176</u>	\$ <u>323,176</u>

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

TOWN OF HOLDERNESS, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Private Purpose Trust Funds	Agency Funds
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ <u>147,600</u>	\$ <u>226,801</u>
Total Assets	147,600	226,801
<b><u>LIABILITIES AND NET POSITION</u></b>		
Other liabilities	<u>-</u>	<u>226,801</u>
Total Liabilities	<u>-</u>	<u>226,801</u>
<b><u>NET POSITION</u></b>		
Total net position held in trust	\$ <u><u>147,600</u></u>	\$ <u><u>-</u></u>

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

TOWN OF HOLDERNESS, NEW HAMPSHIRE  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2017

	<u>Private Purpose Trust Funds</u>
<b>Additions:</b>	
Contributions	\$ 12,840
Interest	<u>1,007</u>
Total additions	13,847
<b>Deductions:</b>	
Other	<u>11,375</u>
Total deductions	<u>11,375</u>
Net increase	2,472
<b>Net position:</b>	
Beginning of year	<u>145,128</u>
End of year	<u>\$ 147,600</u>

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

# TOWN OF HOLDERNESS, NEW HAMPSHIRE

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Holderness (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 Town is a municipal corporation governed by an elected 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 2017, 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 primary government. For the most part, the effect of interfund 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 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 Town 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 Town 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 fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The Town reports the following fiduciary funds:

- The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

#### 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 and permanent 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 Town consist of a certificate of deposit, which is reported at cost.

#### 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 either "due from/to other funds" (i.e., the current portion of interfund loans).

G. Prepays

Prepays represent resources that have been expensed in the current period and will be utilized in the subsequent period.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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.

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

<u>Assets</u>	<u>Years</u>
Land improvements	15-30
Buildings and building improvements	15-40
Infrastructure	10-40
Machinery, equipment, and vehicles	5-25
Software	5

I. Compensated Absences

It is the Town'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.

J. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position.

K. 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.

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 and liabilities/deferred inflows. 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.

L. 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. The budget is then reviewed by the Budget Committee acting as an advisory board to the Selectmen. After reviewing the budget, the Selectmen’s office 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.

*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)	\$ <u>3,413,869</u>	\$ <u>3,434,796</u>
Subtotal (GAAP Basis)	3,413,869	3,434,796
Adjust tax revenue to accrual basis	122,460	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,582)
Add end-of-year appropriation carryforwards from expenditures	-	13,200
Recognize use of fund balance as funding source	345,000	-
To eliminate capital reserve activity	<u>291,761</u>	<u>403,500</u>
Budgetary basis	<u>\$ 4,173,090</u>	<u>\$ 3,849,914</u>

### 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, 2017, none of the Town's bank balance of \$6,716,659 was exposed to custodial credit risk as uninsured or uncollateralized.

### 4. Investments

#### A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Presented below is the actual rating as of year-end for each investment of the Town:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>Aaa</u>	<u>Aa</u>	<u>Not Rated</u>
Certificates of deposits	\$ <u>251,731</u>	N/A	\$ <u>251,731</u>	\$ -	\$ -	\$ -
Total investments	\$ <u>251,731</u>		\$ <u>251,731</u>	\$ -	\$ -	\$ -

#### B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have policies for custodial credit risk.

#### C. Concentration of Credit Risk

The Town does not have an investment in one issuer greater than 5% of total investments.

**D. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal policy relating to interest rate risk.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				<u>N/A</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	
Certificates of deposit	\$ 251,731	\$ -	\$ 251,731	\$ -	\$ -	\$ -
Total	\$ 251,731	\$ -	\$ 251,731	\$ -	\$ -	\$ -

**E. Foreign Currency Risk**

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk.

**5. Restricted Cash**

Restricted cash represents capital reserves funds held by the trustees of trust funds as of June 30, 2017.

**6. Taxes Receivable**

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

Property taxes receivable reported in the government-wide financial statements are net of an allowance for doubtful accounts of \$25,525.

Taxes receivable at June 30, 2017 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 1,159,074	\$ -	\$ 1,159,074
Tax liens	<u>145,257</u>	<u>(25,525)</u>	<u>119,732</u>
Total property taxes	<u>\$ 1,304,331</u>	<u>\$ (25,525)</u>	<u>\$ 1,278,806</u>

Taxes Collected for Others

The Town collects property taxes for the State of New Hampshire, the Holderness School District, the Pemi-Baker Regional School District and the County of Grafton. Payments to the other taxing units are normally made throughout the year. The ultimate responsibility for the collection of taxes rests with the Town.

**7. Interfund Fund Accounts**

**Receivables/Payables**

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

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ -	\$ 77,401
Special Revenue Funds	<u>77,401</u>	<u>-</u>
Total	<u>\$ 77,401</u>	<u>\$ 77,401</u>

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Land improvements	\$ 154,422	\$ -	\$ -	\$ 154,422
Buildings and improvements	1,648,986	1,177,138	-	2,826,124
Machinery, equipment, and vehicles	2,022,926	63,018	(30,657)	2,055,287
Infrastructure	<u>1,873,471</u>	<u>92,173</u>	<u>-</u>	<u>1,965,644</u>
Total capital assets, being depreciated	5,699,805	1,332,329	(30,657)	7,001,477
Less accumulated depreciation for:				
Land improvements	(84,498)	(3,861)	-	(88,359)
Buildings and improvements	(647,254)	(39,670)	-	(686,924)
Machinery, equipment, and vehicles	(1,310,847)	(102,255)	30,657	(1,382,445)
Infrastructure	<u>(647,033)</u>	<u>(91,778)</u>	<u>-</u>	<u>(738,811)</u>
Total accumulated depreciation	<u>(2,689,632)</u>	<u>(237,564)</u>	<u>30,657</u>	<u>(2,896,539)</u>
Total capital assets, being depreciated, net	3,010,173	1,094,765	-	4,104,938
Capital assets, not being depreciated:				
Land	1,296,888	-	-	1,296,888
Construction in progress	<u>264,071</u>	<u>913,067</u>	<u>(1,177,138)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,560,959</u>	<u>913,067</u>	<u>(1,177,138)</u>	<u>1,296,888</u>
Governmental activities capital assets, net	<u>\$ 4,571,132</u>	<u>\$ 2,007,832</u>	<u>\$ (1,177,138)</u>	<u>\$ 5,401,826</u>

Depreciation expense was charged to functions of the Town as follows:

<b>Governmental Activities:</b>	
General government	\$ 13,728
Public safety	58,163
Highways and streets	154,292 *
Sanitation	9,519
Culture and recreation	<u>1,862</u>
Total depreciation expense - governmental activities	<u>\$ 237,564</u>

\*Note: Highway and streets includes depreciation costs for infrastructure

## 9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions, are more fully discussed in Note 16.

**10. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses represent fiscal 2017 expenditures paid in fiscal 2018.

**11. Capital Lease Obligations**

The Town is the lessee of certain equipment under a capital lease which expired in 2017.

**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>6/30/17</u>
<u>Governmental Activities:</u>			
Transfer Station Bond	07/06/17	2.37%	\$ <u>58,333</u>
Total Governmental Activities:			\$ <u><u>58,333</u></u>

*B. Future Debt Service*

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ <u>58,333</u>	\$ <u>1,382</u>	\$ <u>59,715</u>
Total	\$ <u><u>58,333</u></u>	\$ <u><u>1,382</u></u>	\$ <u><u>59,715</u></u>

The general fund has been designated as the source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2017.

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

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Total Balance <u>7/1/16</u>	Additions	Reductions	Total Balance <u>6/30/17</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/17</u>
<b>Governmental Activities</b>						
Bonds payable	\$ 116,667	\$ -	\$ (58,334)	\$ 58,333	\$ (58,333)	\$ -
Net pension liability	<u>1,361,960</u>	<u>334,394</u>	<u>-</u>	<u>1,696,354</u>	<u>-</u>	<u>1,696,354</u>
Other:						
Compensated absences	50,233	2,512	-	52,745	(5,274)	47,471
Capital leases	<u>29,334</u>	<u>-</u>	<u>(29,334)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal - other	<u>79,567</u>	<u>2,512</u>	<u>(29,334)</u>	<u>52,745</u>	<u>(5,274)</u>	<u>47,471</u>
Totals	<u>\$ 1,558,194</u>	<u>\$ 336,906</u>	<u>\$ (87,668)</u>	<u>\$ 1,807,432</u>	<u>\$ (63,607)</u>	<u>\$ 1,743,825</u>

**13. Deferred Inflows of Resources**

Deferred inflows of resources are the acquisition of net position 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 Town reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 16. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

**14. 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 Town has implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2017:

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 (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 and sale of land proceeds to be used for remaining debt payments on the Conservation land bond that funded the purchase of the property.

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, 2017:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Prepaid expenditures	\$ 3,740	\$ -	\$ 3,740
Nonexpendable permanent funds	<u>-</u>	<u>4,750</u>	<u>4,750</u>
Total Nonexpendable	3,740	4,750	8,490
Restricted			
Special revenue funds	-	77,401	77,401
Expendable permanent funds	<u>-</u>	<u>9,434</u>	<u>9,434</u>
Total Restricted	-	86,835	86,835
Committed			
Capital reserve funds	<u>982,881</u>	<u>-</u>	<u>982,881</u>
Total Committed	982,881	-	982,881
Assigned			
Encumbrances	<u>13,200</u>	<u>-</u>	<u>13,200</u>
Total Assigned	13,200	-	13,200
Unassigned			
Unassigned	<u>1,441,026</u>	<u>-</u>	<u>1,441,026</u>
Total Unassigned	<u>1,441,026</u>	<u>-</u>	<u>1,441,026</u>
Total Fund Balance	<u>\$ 2,440,847</u>	<u>\$ 91,585</u>	<u>\$ 2,532,432</u>

#### 15. 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.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 1,441,026
Other GAAP differences	<u>(68,018)</u>
Tax Rate Setting Balance	<u>\$ 1,373,008</u>

## 16. 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, 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 10.86% to 25.32% of covered compensation. The Town's contribution to NHRS for the year ended June 30, 2017 was \$116,871, which was 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, 2017, the Town reported a liability of \$1,696,354 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. 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, 2017, the Town's proportion was .03190078 percent.

For the year ended June 30, 2017, the Town recognized pension expense of \$183,352. In addition, the 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	\$ 4,714	\$ 21,421
Changes of assumptions	208,767	-
Net difference between projected and actual earnings on pension plan investments	106,133	-
Changes in proportion and differences between contributions and proportionate share of contributions	91,121	109,621
Contributions subsequent to the measurement date	<u>116,871</u>	<u>-</u>
Total	<u>\$ 527,606</u>	<u>\$ 131,042</u>

\$116,871 reported as 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 2018. Other 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:

2018	\$ 54,755
2019	54,755
2020	97,113
2021	70,661
2022	<u>2,409</u>
Total	<u>\$ 279,693</u>

**F. Actuarial Assumptions**

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent per year
Salary increases	5.6 percent average, including inflation
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the most recent actuarial experience study.

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:

Asset Class	Target Allocation Percentage	Weighted Average Average Long- Term Expected Real Rate of Return
Large Cap Equities	22.50 %	4.25%
Small/Mid Cap Equities	7.50	4.50%
Total domestic equities	30.00	
Int'l Equities (unhedged)	13.00	4.75%
Emerging Int'l Equities	7.00	6.25%
Total international equities	20.00	
Core Bonds	5.00	0.64%
Short Duration	2.00	-0.25%
Global Multi-Sector Fixed Income	11.00	1.71%
Absolute Return Fixed Income	7.00	1.08%
Total fixed income	25.00	
Private equity	5.00	6.25%
Private debt	5.00	4.75%
Opportunistic	5.00	3.68%
Real estate	10.00	3.25%
Total alternative investments	25.00	
Total	100.00 %	

G. Discount Rate

The discount rate used to measure the total pension liability was 7.25%. 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.

H. 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 7.25 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 (6.25%) or one percentage-point higher (8.25%) than the current rate:

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 2,179,700	\$ 1,696,354	\$ 1,295,496

I. Pension Plan Fiduciary Net Position

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

**17. Other Post-Employment Benefits – OPEB (GASB 45)**

The Town has implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree

earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time. However, the Town participates in a community-rated plan, which insurance premium rates reflect the health claim experience of all participating employers. As a result, it is appropriate to use the unadjusted premium as the basis for projecting retiree benefits. Since the Town does not provide a benefit to retirees, and it is reasonable for the Town to project benefits using unadjusted premiums, the Town does not have an OPEB liability.

## **18. Commitments and Contingencies**

Outstanding Legal Issues - There are pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

## **19. Implementation of New GASB Standard**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, replacing requirements of Statements No. 45 and 57, effective for the Town beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB.

**TOWN OF HOLDERNESS, NEW HAMPSHIRE  
SCHEDULE OF PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY (GASB 68)**

**JUNE 30, 2017  
(Unaudited)**

New Hampshire Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	June 30, 2016	0.03190078%	\$1,696,354	\$ 669,376	253.42%	58.30%
June 30, 2016	June 30, 2015	0.03437966%	\$1,361,960	\$ 652,344	208.78%	65.47%
June 30, 2015	June 30, 2014	0.03095926%	\$1,390,339	\$ 628,603	221.18%	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 HOLDERNESS, NEW HAMPSHIRE  
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)**

**JUNE 30, 2017  
(Unaudited)**

New Hampshire Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2017	\$ 116,871	\$ 116,871	\$ -	\$ 669,119	17.47%
June 30, 2016	\$ 115,340	\$ 115,340	\$ -	\$ 669,376	17.23%
June 30, 2015	\$ 100,439	\$ 100,439	\$ -	\$ 652,344	15.40%

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

See Independent Auditors' Report.