

**TOWN OF FRANCONIA,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018**

TOWN OF FRANCONIA, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018
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PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Selectmen
Town of Franconia
Franconia, New Hampshire

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major governmental and proprietary fund, and aggregate remaining fund information of the Town of Franconia as of and for the year ended December 31, 2018, 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

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 unmodified and adverse audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Adverse
Business-type Activities	Unmodified
General Fund	Unmodified
Transfer Station Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

***Town of Franconia
Independent Auditor's Report***

Basis for Adverse Opinion on Governmental Activities

As discussed in Note 1-B to the financial statements, management has not recorded the long-term costs of retirement health care costs and obligations for other postemployment benefits for the Town's single employer plan in the governmental activities. Accounting principles generally accepted in the United States of America require that those costs be recorded, which would increase the liabilities, decrease the net position and increase the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position, and expenses on the governmental activities is not readily determinable.

Adverse Opinion

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Governmental Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities financial statements of the Town of Franconia, as of December 31, 2018, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and aggregate remaining fund information of the Town of Franconia as of December 31, 2018, and the respective changes in financial position and the respective budgetary comparison for the general fund and transfer station fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2-C to the financial statements, in fiscal year 2018 the Town adopted new accounting guidance Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are modified with respect to this matter.

Other Matters

Management's Discussion and Analysis – Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Required Supplementary Information – Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements:

- Schedule of the Town's Proportionate Share of Net Pension Liability,
- Schedule of Town Contributions – Pensions,
- Schedule of the Town's Proportionate Share of the Net Other Postemployment Benefits Liability,
- Schedule of Town Contributions – Other Postemployment Benefits, and
- Notes to the Required Supplementary Information

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 sufficient evidence to express an opinion or provide any assurance.

Other Information – Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Franconia's basic financial statements. The combining and individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

***Town of Franconia
Independent Auditor's Report***

The combining and individual fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards* – In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2019, on our consideration of the Town of Franconia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Franconia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Franconia's internal control over financial reporting and compliance.

Sheryl A. Platt, CPA

PLODZIK & SANDERSON
Professional Association

July 10, 2019

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF FRANCONIA, NEW HAMPSHIRE
Statement of Net Position
December 31, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,366,878	\$ 94,631	\$ 2,461,509
Investments	1,947,499	8,031	1,955,530
Taxes receivables (net)	135,906	-	135,906
Account receivables (net)	26,761	112,416	139,177
Intergovernmental receivable	19,496	-	19,496
Tax deeded property, subject to resale	118,845	-	118,845
Capital assets:			
Land and construction in progress	852,334	118,516	970,850
Other capital assets, net of depreciation	3,134,991	3,797,688	6,932,679
Total assets	<u>8,602,710</u>	<u>4,131,282</u>	<u>12,733,992</u>
DEFERRED OUTFLOWS OF RESOURCES			
Amounts related to pensions	112,767	-	112,767
Amounts related to other postemployment benefits	7,238	-	7,238
Total deferred outflows of resources	<u>120,005</u>	<u>-</u>	<u>120,005</u>
LIABILITIES			
Accounts payable	6,882	-	6,882
Accrued salaries and benefits	4,995	-	4,995
Accrued interest payable	8,226	1,137	9,363
Intergovernmental payable	1,392,119	-	1,392,119
Internal balances	(200)	200	-
Long-term liabilities:			
Due within one year	76,809	70,458	147,267
Due in more than one year	1,987,248	1,686,194	3,673,442
Total liabilities	<u>3,476,079</u>	<u>1,757,989</u>	<u>5,234,068</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	26,093	-	26,093
Highway block grant	39,905	-	39,905
Amounts related to pensions	102,191	-	102,191
Amounts related to other postemployment benefits	250	-	250
Total deferred inflows of resources	<u>168,439</u>	<u>-</u>	<u>168,439</u>
NET POSITION			
Net investment in capital assets	2,626,662	2,159,552	4,786,214
Restricted	441,358	213,741	655,099
Unrestricted	2,010,177	-	2,010,177
Total net position	<u>\$ 5,078,197</u>	<u>\$ 2,373,293</u>	<u>\$ 7,451,490</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT B
TOWN OF FRANCONIA, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended December 31, 2018

	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:						
General government	\$ 764,360	\$ 10,489	\$ -	\$ (753,871)	\$ -	\$ (753,871)
Public safety	592,323	112,092	6,000	(474,231)	-	(474,231)
Highways and streets	580,777	-	95,764	(485,013)	-	(485,013)
Sanitation	261,372	194,645	-	(66,727)	-	(66,727)
Health	23,280	-	-	(23,280)	-	(23,280)
Welfare	20,626	-	-	(20,626)	-	(20,626)
Culture and recreation	368,438	92,982	-	(275,456)	-	(275,456)
Conservation	795	-	-	(795)	-	(795)
Interest on long-term debt	42,931	-	-	(42,931)	-	(42,931)
Total governmental activities	<u>2,634,902</u>	<u>410,208</u>	<u>101,764</u>	<u>(2,122,930)</u>	<u>-</u>	<u>(2,122,930)</u>
Business-type activities:						
Water	426,950	327,626	-	-	(99,324)	(99,324)
Total	<u>\$ 3,061,852</u>	<u>\$ 737,834</u>	<u>\$ 101,764</u>	<u>(2,122,930)</u>	<u>(99,324)</u>	<u>(2,222,254)</u>
General revenues:						
Taxes:						
Property				1,689,419	-	1,689,419
Other				96,674	-	96,674
Motor vehicle permit fees				290,616	-	290,616
Licenses and other fees				9,139	-	9,139
Grants and contributions not restricted to specific programs				57,748	-	57,748
Unrestricted investment earnings				33,370	389	33,759
Miscellaneous				149,109	-	149,109
Total general revenues				<u>2,326,075</u>	<u>389</u>	<u>2,326,464</u>
Transfers				(38,100)	38,100	-
Total general revenues and transfers				<u>2,287,975</u>	<u>38,489</u>	<u>2,326,464</u>
Change in net position				165,045	(60,835)	104,210
Net position, beginning, as restated (see Note 17)				4,913,152	2,434,128	7,347,280
Net position, ending				<u>\$ 5,078,197</u>	<u>\$ 2,373,293</u>	<u>\$ 7,451,490</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-1
TOWN OF FRANCONIA, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
December 31, 2018

	General	Transfer Station	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,321,485	\$ -	\$ 8,446	\$ 2,329,931
Investments	6,525	143,702	278,715	428,942
Receivables, net of allowance for uncollectible:				
Taxes	305,906	-	-	305,906
Accounts	22,597	4,164	-	26,761
Intergovernmental receivable	7,301	12,195	-	19,496
Interfund receivable	104,855	-	3,550	108,405
Tax dedeed property, subject to resale	118,845	-	-	118,845
Restricted assets:				
Cash and cash equivalents	36,947	-	-	36,947
Investments	1,518,557	-	-	1,518,557
Total assets	<u>\$ 4,443,018</u>	<u>\$ 160,061</u>	<u>\$ 290,711</u>	<u>\$ 4,893,790</u>
LIABILITIES				
Accounts payable	\$ 4,407	\$ 2,475	\$ -	\$ 6,882
Accrued salaries and benefits	4,995	-	-	4,995
Intergovernmental payable	1,376,522	15,597	-	1,392,119
Interfund payable	3,550	104,655	-	108,205
Total liabilities	<u>1,389,474</u>	<u>122,727</u>	<u>-</u>	<u>1,512,201</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - Property taxes	108,746	-	-	108,746
Highway block grant	39,905	-	-	39,905
Total deferred inflows of resources	<u>148,651</u>	<u>-</u>	<u>-</u>	<u>148,651</u>
FUND BALANCES				
Nonspendable	118,845	-	106,628	225,473
Restricted	314,415	-	23,740	338,155
Committed	1,235,259	37,334	160,343	1,432,936
Unassigned	1,236,374	-	-	1,236,374
Total fund balances	<u>2,904,893</u>	<u>37,334</u>	<u>290,711</u>	<u>3,232,938</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,443,018</u>	<u>\$ 160,061</u>	<u>\$ 290,711</u>	<u>\$ 4,893,790</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-2
TOWN OF FRANCONIA, NEW HAMPSHIRE
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
December 31, 2018

Amounts reported for governmental activities in the Statement of Net Position are different because:		
Total fund balances of governmental funds (Exhibit C-1)		\$ 3,232,938
Capital assets used in governmental activities are not current financial resources, therefore, are not reported in the governmental funds.		
Cost	\$ 6,334,821	
Less accumulated depreciation	<u>(2,347,496)</u>	3,987,325
Pension and other postemployment benefit (OPEB) related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year, and therefore, are not reported in the governmental funds as follows:		
Deferred outflows of resources related to pensions	\$ 112,767	
Deferred inflows of resources related to pensions	(102,191)	
Deferred outflows of resources related to OPEB	7,238	
Deferred inflows of resources related to OPEB	<u>(250)</u>	17,564
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (108,205)	
Payables	<u>108,205</u>	-
Other long-term assets are not available to pay for current period expenditures, and therefore, are reported as deferred inflows of resources in the governmental funds.		82,653
Allowance for uncollectible property taxes that is recognized on a full accrual basis, but not on the modified accrual basis.		(170,000)
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(8,226)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the governmental funds.		
Notes	\$ 1,360,663	
Compensated absences	89,560	
Net pension liability	535,137	
Other postemployment benefits	<u>78,697</u>	(2,064,057)
Net position of governmental activities (Exhibit A)		<u>\$ 5,078,197</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-3
TOWN OF FRANCONIA, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2018

	General	Transfer Station	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 1,758,850	\$ -	\$ 3,550	\$ 1,762,400
Licenses and permits	299,755	-	-	299,755
Intergovernmental	202,116	57,571	-	259,687
Charges for services	162,965	137,074	-	300,039
Miscellaneous	182,823	2,614	7,036	192,473
Total revenues	<u>2,606,509</u>	<u>197,259</u>	<u>10,586</u>	<u>2,814,354</u>
EXPENDITURES				
Current:				
General government	720,618	-	8,319	728,937
Public safety	456,052	-	-	456,052
Highways and streets	403,311	-	-	403,311
Sanitation	-	255,515	-	255,515
Health	23,280	-	-	23,280
Welfare	20,626	-	-	20,626
Culture and recreation	339,832	-	-	339,832
Conservation	735	-	60	795
Debt service:				
Principal	140,368	-	-	140,368
Interest	43,788	-	-	43,788
Capital outlay	163,475	-	-	163,475
Total expenditures	<u>2,312,085</u>	<u>255,515</u>	<u>8,379</u>	<u>2,575,979</u>
Excess (deficiency) of revenues over (under) expenditures	<u>294,424</u>	<u>(58,256)</u>	<u>2,207</u>	<u>238,375</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	70,242	-	-	70,242
Transfers out	(38,100)	-	(70,242)	(108,342)
Total other financing sources (uses)	<u>32,142</u>	<u>-</u>	<u>(70,242)</u>	<u>(38,100)</u>
Net change in fund balances	326,566	(58,256)	(68,035)	200,275
Fund balances, beginning	2,578,327	95,590	358,746	3,032,663
Fund balances, ending	<u>\$ 2,904,893</u>	<u>\$ 37,334</u>	<u>\$ 290,711</u>	<u>\$ 3,232,938</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-4
TOWN OF FRANCONIA, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2018

Net change in fund balances of governmental funds (Exhibit C-3)	\$	200,275
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures, while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:		
Capitalized capital outlay	\$	125,200
Depreciation expense		<u>(269,900)</u>
		(144,700)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net position.		853
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	\$	(70,242)
Transfers out		<u>70,242</u>
		-
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds.		
Change in deferred tax revenue	\$	18,693
Change in allowance for uncollectible taxes		<u>5,000</u>
		23,693
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Repayment of note principal		143,130
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 governmental funds.		
Decrease in accrued interest expense	\$	857
Increase in compensated absences payable		(40,934)
Net change in net pension liability, and deferred outflows and inflows of resources related to pensions		(7,017)
Net change in net other postemployment benefits liability and deferred outflows and inflows of resources related to other postemployment benefits		<u>(11,112)</u>
		<u>(58,206)</u>
Changes in net position of governmental activities (Exhibit B)	\$	<u><u>165,045</u></u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT D-1
TOWN OF FRANCONIA, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2018

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,730,682	\$ 1,730,682	\$ 1,782,543	\$ 51,861
Licenses and permits	261,000	261,000	299,755	38,755
Intergovernmental	150,054	150,054	202,116	52,062
Charges for services	79,500	79,500	161,673	82,173
Miscellaneous	52,300	52,300	128,603	76,303
Total revenues	<u>2,273,536</u>	<u>2,273,536</u>	<u>2,574,690</u>	<u>301,154</u>
EXPENDITURES				
Current:				
General government	725,634	735,452	697,193	38,259
Public safety	479,000	479,000	456,052	22,948
Highways and streets	324,682	399,082	403,311	(4,229)
Health	23,480	23,480	23,280	200
Welfare	6,068	6,068	20,626	(14,558)
Culture and recreation	212,731	297,354	287,049	10,305
Conservation	1,000	1,000	735	265
Debt service:				
Principal	154,572	154,572	140,368	14,204
Interest	71,424	71,424	43,788	27,636
Capital outlay	104,300	182,460	163,475	18,985
Total expenditures	<u>2,102,891</u>	<u>2,349,892</u>	<u>2,235,877</u>	<u>114,015</u>
Excess (deficiency) of revenues over (under) expenditures	<u>170,645</u>	<u>(76,356)</u>	<u>338,813</u>	<u>415,169</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	36,000	283,001	325,941	42,940
Transfers out	(528,377)	(528,377)	(465,436)	62,941
Total other financing sources (uses)	<u>(492,377)</u>	<u>(245,376)</u>	<u>(139,495)</u>	<u>105,881</u>
Net change in fund balances	<u>\$ (321,732)</u>	<u>\$ (321,732)</u>	199,318	<u>\$ 521,050</u>
Decrease in nonspendable fund balance			29,225	
Increase in restricted fund balance			(63)	
Unassigned fund balance, beginning			920,547	
Unassigned fund balance, ending			<u>\$ 1,149,027</u>	

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT D-2
TOWN OF FRANCONIA, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (GAAP Basis)
Transfer Station Fund
For the Fiscal Year Ended December 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Intergovernmental	\$ 73,168	\$ 57,571	\$ (15,597)
Charges for services	115,000	137,074	22,074
Miscellaneous	-	2,614	2,614
Total revenues	<u>188,168</u>	<u>197,259</u>	<u>9,091</u>
EXPENDITURES			
Current:			
Sanitation	<u>289,209</u>	<u>255,515</u>	<u>33,694</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(101,041)</u>	<u>(58,256)</u>	<u>42,785</u>
OTHER FINANCING SOURCES			
Transfers in	<u>101,041</u>	<u>-</u>	<u>(101,041)</u>
Net change in fund balances	<u>\$ -</u>	<u>(58,256)</u>	<u>\$ (58,256)</u>
Fund balance, beginning		<u>95,590</u>	
Fund balance, ending		<u>\$ 37,334</u>	

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-1
TOWN OF FRANCONIA, NEW HAMPSHIRE
Proprietary Fund
Statement of Net Position
December 31, 2018

	Business-type Activities
	Enterprise Fund
	Water Department
ASSETS	
Cash and cash equivalents	\$ 94,631
Investments	8,031
Accounts receivable (net)	112,416
Capital assets:	
Land and construction in progress	118,516
Other capital assets, net of depreciation	3,797,688
Total assets	4,131,282
LIABILITIES	
Current liabilities:	
Accrued interest payable	1,137
Internal balances	200
Long term liabilities:	
Due within one year	70,458
Due in more than one year	1,686,194
Total liabilities	1,757,989
NET POSITION	
Net investment in capital assets	2,159,552
Restricted	213,741
Total net position	\$ 2,373,293

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-2
TOWN OF FRANCONIA, NEW HAMPSHIRE
Proprietary Fund
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended December 31, 2018

	Business-type Activities
	Enterprise Fund
	Water Department
Operating revenues:	
User charges	\$ 324,982
Fees and interest	2,644
Total operating revenues	327,626
Operating expenses:	
Salaries and wages	10,568
Operation and maintenance	192,978
Depreciation and amortization	182,759
Total operating expenses	386,305
Operating loss	(58,679)
Nonoperating revenue(expense):	
Interest income	389
Interest expense	(40,645)
Total nonoperating revenues	(40,256)
Other financing sources:	
Transfers in	38,100
Change in net position	(60,835)
Net position, beginning	2,434,128
Net position, ending	\$ 2,373,293

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-3
TOWN OF FRANCONIA, NEW HAMPSHIRE
Proprietary Fund
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2018

	Business-type Activities
	Enterprise Fund
	Water Department
Cash flows from operating activities:	
Receipts from customers and users	\$ 292,885
Payments to employees	(10,568)
Payments to suppliers	(192,650)
Net cash provided by operating activities	89,667
Cash flows from capital and related financing activities:	
Principal paid on bonds	(68,898)
Interest paid	(40,690)
Net cash used by capital and related financing activities	(109,588)
Cash flows from non-capital financing activities:	
Operating transfers in	38,100
Cash flows from investing activities:	
Purchase of investments	(138)
Interest received	389
Net cash used by investing activities	251
Net increase in cash	18,430
Cash, beginning	76,201
Cash, ending	\$ 94,631

Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities

Operating loss	\$ (58,679)
Adjustments to reconcile operating gain (loss) to net cash provided (used) by operating activities:	
Depreciation expense	182,759
Increase in receivables	(34,741)
Decrease in internal balances	328
Total adjustments	148,346
Net cash provided by operating activities	\$ 89,667

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT F-1
TOWN OF FRANCONIA, NEW HAMPSHIRE
Fiduciary Funds
Statement of Net Position
December 31, 2018

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ 10,279	\$ 807
Investments	162,872	242,704
Total assets	173,151	\$ 243,511
LIABILITIES		
Intergovernmental	-	\$ 243,511
NET POSITION		
Held in trust for specific purposes	\$ 173,151	

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT F-2
TOWN OF FRANCONIA, NEW HAMPSHIRE
Fiduciary Funds
Statement of Changes in Net Position
For the Fiscal Year Ended December 31, 2018

	Private Purpose Trust
ADDITIONS	
Interest	\$ 5,786
Change in fair market value	(11,099)
Total additions	(5,313)
DEDUCTIONS	
Scholarships	3,100
Change in net position	(8,413)
Net position, beginning	181,564
Net position, ending	\$ 173,151

The notes to the basic financial statements are an integral part of this statement.

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Franconia, New Hampshire (the Town), have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

In 2018 the Town implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which changed the way other postemployment benefit (OPEB) liabilities and related expenses are recorded. See Note 1-O for further information on this pronouncement.

The more significant of the Town’s accounting policies are described below.

1-A Reporting Entity

The Town of Franconia is a municipal corporation governed by an elected 3-member Board of Selectmen. In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by the GASB. The Town has no component units to include in its reporting entity.

1-B Basis of Accounting, and Measurement Focus

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements – The Town’s government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental and business-type activities for the Town accompanied by a total column. Fiduciary activities of the Town are not included in these statements.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the Town’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position, with the exception of the long-term costs of retirement healthcare and obligations for other postemployment benefits of the Town’s single employer plan have been omitted because the liability and expense have not been determined. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. As in the Statement of Net Position the Town has not recorded other postemployment benefit expense of the Town’s single employer plan in this statement. The types of transactions reported as program revenues for the Town are reported in two categories: 1) charges for services and 2) operating grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

Governmental Fund Financial Statements – Include a balance sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying statement is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements. The Town has presented all major funds that met those qualifications.

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 generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of reimbursement-based grants, which use a period of one year. Property

TOWN OF FRANCONIA, NEW HAMPSHIRE
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taxes, licenses and permits, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. 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:

General Fund – is the Town’s primary operating fund. The general fund accounts for all financial resources except those required to be accounted for in another fund. The primary revenue sources include property taxes, State grants and motor vehicle permit fees. The primary expenditures are for general government, public safety, highways and streets, culture and recreation, debt service and capital outlay. Under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, guidance the library, and expendable trust funds are consolidated in the general fund.

Transfer Station Fund – accounts for the activities related to the operation of the tri-town transfer station.

Additionally, the Town reports the following fund types:

Special Revenue Funds – are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Funds – are used to account for the financial resources and activities relating to specific construction projects.

Permanent Fund – are held in the custody of the Trustees of Trust Funds and are used to account for resources held in trust for use by the Town. These can include legal trusts for which the interest on the corpus provides funds for the Town’s cemetery operations.

All the governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements. The Town reports three nonmajor governmental funds.

Proprietary Fund Financial Statements – Include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows for the major proprietary fund.

Proprietary funds are reported using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The Town reports the following major proprietary fund:

Water Fund – accounts for the activities related to the operation of the water treatment plant, wells, and water system.

Fiduciary Fund Financial Statements – Include a Statement of Net Position and a Statement of Changes in Net Position. The Town’s fiduciary funds are private purpose trust and agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These funds are accounted for on a spending or “economic resources” measurement focus and the accrual basis of accounting as are the proprietary funds explained above.

The Town also reports the following fiduciary funds:

Private Purpose Trust Fund – are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments.

TOWN OF FRANCONIA, NEW HAMPSHIRE
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Agency Fund – are custodial in nature and do not involve the measurement of operating results. An agency fund is used to account for assets held on behalf of outside parties, including other governments.

1-C Cash and Cash Equivalents

The Town considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits, and savings accounts. A cash 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 cash equivalents.”

The treasurer is required to deposit such moneys in solvent banks in state or the Public Deposit Investment Pool pursuant to New Hampshire RSA 383:22. Funds may be deposited in banks outside of the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations to the State of New Hampshire in value at least equal to the amount of the deposit in each case.

1-D Restricted Assets

Certain Town assets are classified as restricted assets because their use is restricted by statutory limitation, and/or they are earmarked for a specific purpose.

1-E Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Town considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

1-F Investments

State statutes place certain limitations on the nature of deposits and investments available as follows:

New Hampshire law authorizes the Town to invest in the following type of obligations:

- Obligations of the United States government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the State treasurer.

Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, 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. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

Fair Value Measurements of Investments – In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, except for investments measured using net asset value (NAV) as a practical expedient to estimate fair value, the Town categorizes the fair value measurements of its investments within the fair value hierarchy established by US GAAP. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

Level 1 – Inputs reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the Town has the ability to access at the measurement date. Directly held marketable equity securities would be examples of Level 1 investments.

Level 2 – Inputs are other than quoted prices that are observable for the assets or liabilities, either directly or indirectly, including inputs in markets that are not considered to be active. Because they most often are priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held fixed income securities are categorized in Level 2. All of the Town’s holdings in New Hampshire Public Deposit Investment Pool (NHPDIP), would be examples of Level 2 investments.

Level 3 – Inputs are significant unobservable inputs.

TOWN OF FRANCONIA, NEW HAMPSHIRE
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The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, is the level in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. Investments are reported at fair value. If an investment is held directly by the Town and an active market with quoted prices exists, such as for domestic equity securities, the market price of an identical security is used to report fair value and is classified in Level 1. Corporate fixed income securities and certain governmental securities utilize pricing that may involve estimation using similar securities or trade dates and are classified in Level 2. Fair values for shares in registered mutual funds and exchange-traded funds are based on published share prices and classified in Level 1.

In determining fair value, the Town utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

Investments in Certain External Investment Pools – In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, the Town held investments with the New Hampshire Public Deposit Investment Pool (NHPDIP) are categorized as Level 2. The NHPDIP measures all of its investments at amortized cost. There are no redemption restrictions and shares may be redeemed by the Town in accordance with the NHPDIP’s Information Statement.

1-G Receivables

Receivables recorded in the financial statements represent amounts due to the Town at December 31. They are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. They consist primarily of taxes, billing for charges, and other user fees.

1-H Capital Assets

Capital assets include property, plant, and equipment, infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), and intangible assets (i.e. easements) which are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The accounting and reporting treatment applied to capital assets associated with a fund are determined by the fund’s measurement focus. General capital assets are assets of the Town as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the government-wide Statement of Net Position. Capital assets of the proprietary fund are capitalized in the fund and the cost basis for proprietary fund capital assets is the same as that used for general capital assets.

Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are carried at historical cost or estimated historical cost. When the cost of the capital assets cannot be determined from available records, estimated historical cost is used. Donated capital assets received on or prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

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

Capital Asset Classes:	<u>Years</u>
Buildings and building improvements	10 - 50
Machinery, equipment, and vehicles	5 - 35
Infrastructure	10 - 80

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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1-I Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e. the current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business activities are reported in the government-wide financial statements as “internal balances.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

Interfund Transfers – Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making the transfers and other financing sources in the funds receiving the transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses. In the government-wide financial statements, all interfund transfers between individual governmental funds have been eliminated.

1-J Property Taxes

Property tax billings occur semi-annually and are based on the assessed inventory values as of April 1 of each year in accordance with RSA 76:15-a, *Semi-Annual Collection of Taxes in certain Towns and Cities*. Warrants for the year were issued on May 14, 2018 and October 22, 2018, and due on July 2, 2018 and December 4, 2018. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

In connection with the setting of the tax rate, Town officials with the approval of the Department of Revenue Administration, establish and raise through taxation an amount for tax abatement and refunds, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any reserve for uncollectable at year end. The property taxes collected by the Town include taxes levied for the State of New Hampshire, Lafayette Regional School District, Profile School District, and Grafton County, which are remitted to these entities as required by law.

The Town net assessed valuation as of April 1, 2018 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 280,409,006
For all other taxes	\$ 285,649,006

The tax rates and amounts assessed for the year ended December 31, 2018 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$6.00	\$ 1,715,116
School portion:		
State of New Hampshire	\$2.20	616,897
Local	\$8.74	2,496,223
County portion	\$1.98	564,715
Total	\$18.92	\$ 5,392,951

1-K Accounts Payable

Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers as of December 31, 2018.

TOWN OF FRANCONIA, NEW HAMPSHIRE
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1-L Deferred Outflows/Inflows of Resources

Deferred outflows of resources, a separate financial statement element, represents a consumption of net position or fund balance that applies to a future period(s) and thus will not be recognized as an outflow of resources (expenses) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension and OPEB expense and contributions from the Town after the measurement date but before the end of the Town's reporting period.

Deferred inflows of resources, a separate financial statement element, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year.

1-M Long-term Obligations

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

1-N Compensated Absences

The Town's policy allows certain employees to earn varying amounts of vacation and sick pay based on the employee's length of employment. Upon separation from service, employees are paid in full for any accrued leave earned as set forth by personnel policy. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

1-O Defined Benefit Pension Plan

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* and GASB Statement No. 82, *Pension Issues – an amendment of GASB Statement No. 67, No. 68 and No.73* requires participating employers to recognize their proportionate share of collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, and schedules have been prepared to provide employers with their calculated proportionate share of these amounts. The collective amounts have been allocated based on employer contributions during the respective fiscal years. Contributions from employers are recognized when legally due, based on statutory requirements.

The schedules prepared by New Hampshire Retirement System, and audited by the plan's independent auditors, require management to make a number of estimates and assumptions related to the reported amounts. Due to the inherent nature and uncertainty of these estimates, actual results could differ, and the differences may be material.

1-P Postemployment Benefits Other Than Pensions (OPEB)

The Town maintains two separate other postemployment benefit plans, as follows:

New Hampshire Retirement System Plan – For the purposes of measuring the total other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Hampshire Retirement System OPEB Plan (the plan) and additions to/deductions from the plan's fiduciary net position has been determined on the same basis as they are reported by the New Hampshire Retirement System. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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Single Employer Plan – The Town maintains a single employer plan, but has not obtained an actuarial report calculating the other postemployment benefit liability, deferred outflows of resources, and deferred inflows of resources in accordance with Government Accounting Standards Board pronouncement No. 75.

1-Q Net Position/Fund Balances

Government-wide Statements – Equity is classified as net position and displayed in three components:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

Restricted net position – Results when constraints placed on net position use are either externally imposed by a third party (statutory, bond covenant, or granting agency) or are imposed by law through constitutional provisions or enabling legislation. The Town typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a further project.

Unrestricted net position – Consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

Fund Balance Classifications – GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides more clearly defined fund balance categories to make sure the nature and extent of the constraints placed on a government's fund balances are more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable – Amounts that cannot be spent because they are either (a) not in spendable form (such as prepaid items, inventory or tax deeded property subject to resale); or (b) are legally or contractually required to be maintained intact.

Restricted – Amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the legislative body (Town Meeting). These amounts cannot be used for any other purpose unless the legislative body removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Selectmen through the budgetary process.

Unassigned – Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

When multiple net position/fund balance classifications are available for use, it is the government's policy to utilize the most restricted balances first, then the next most restricted balance as needed. When components of unrestricted fund balance are used, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

1-R Use of Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. These estimates include assessing the collectability of accounts receivable, and the useful lives and impairment of tangible and intangible capital assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from estimates.

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NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Town’s operations. At its annual meeting, the Town adopts a budget for the current year for the general, and transfer station fund. Except as reconciled below, the budget was adopted on a basis consistent with US generally accepted accounting principles.

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at year-end unless encumbered.

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures, and are therefore, reported as part of the assigned fund balance at year-end, and are carried forward to supplement appropriations of the subsequent year.

State statutes require balanced budgets but provide for the use of beginning unassigned fund balance to achieve that end. For the fiscal year 2018, \$171,390 of the beginning general fund unassigned fund balance was applied for this purpose and \$150,342 was voted from unassigned fund balance as a transfer to the capital reserve funds.

2-B Budgetary Reconciliation to GAAP Basis

The Town employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Basis presents the actual results to provide a comparison with the budget. The major difference between the budgetary basis and GAAP basis is as follows:

Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and commitments (encumbrances) for goods or services not received at year-end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no liability exists.

The following reconciles the general fund budgetary basis to the GAAP basis:

Revenues and other financing sources:	
Per Exhibit D-1 (budgetary basis)	\$ 2,900,631
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
To record miscellaneous income of the blended funds	55,512
To eliminate transfers between the general fund and blended expendable trust funds	(255,699)
Change in deferred tax revenue relating to 60-day revenue recognition	(23,693)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,676,751</u>
 Expenditures and other financing uses:	
Per Exhibit D-1 (budgetary basis)	\$ 2,701,313
Adjustment:	
Basis differences:	
GASB Statement No. 54:	
To record expenditures of the blended funds during the year	76,208
To eliminate transfers between general and blended expendable trust funds	(427,336)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,350,185</u>

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2-C Accounting Change/Restatement Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. Beginning net position for governmental activities was restated to retroactively report the change in valuation of the beginning total OPEB liability, deferred inflows and outflows of resources, as follows:

	State OPEB
Change in total OPEB liability under current standards, January 1	<u>\$ (64,546)</u>
Initial balance of deferred outflows of resources	3,949
Cumulative restatement related to GASB No. 75 implementation (see Note 17)	<u><u>\$ (60,597)</u></u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

The Town’s deposits are entirely covered by federal depository insurance (FDIC) or by collateral held by the Town’s agent in the Town’s name. The FDIC currently insures the first \$250,000 of the Town’s deposits at each financial institution, per case custodian. Deposit balances over \$250,000 are insured by the collateral. As of year-end, the carrying amount of the Town’s deposits was \$2,472,595 and the bank balances totaled \$2,538,638. Petty cash totaled \$100.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 2,461,509
Cash per Statement of Net Position - Fiduciary Fund (Exhibit F-1)	11,086
Total cash and cash equivalents	<u><u>\$ 2,472,595</u></u>

Custodial Credit Risk – The Town’s repurchase agreements are all with banking institutions; therefore, are subject to custodial credit risk. The custodial credit risk is the risk that in the event of bank failure, the Town’s deposits may not be recovered.

Interest Rate Risk – The term repurchase agreements are also subject to interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the value of the Town’s investments.

NOTE 4 – RESTRICTED ASSETS

Cash and investments are classified as restricted for the following purposes:

Cash and cash equivalents:	
General fund:	
Library	\$ 32,827
Capital reserve funds	4,120
Total restricted cash and cash equivalents	<u>36,947</u>
Investments:	
General fund:	
Library	279,540
Capital reserve funds	1,239,017
Total restricted investments	<u>1,518,557</u>
Total restricted assets	<u><u>\$ 1,555,504</u></u>

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NOTE 5 – INVESTMENTS

Note 1-F describes statutory requirements covering the investment of the Town funds. The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town’s mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Town has the following recurring fair value measurements and maturities as of December 31, 2018:

	Valuation Measurement Method	Fair Value
	<u>Method</u>	<u>Fair Value</u>
Investments type:		
Equity mutual funds	Level 1	\$ 397,986
Fixed income mutual funds	Level 1	1,468,466
Mutual funds	Level 1	180,310
New Hampshire Public Deposit Investment Pool	Level 2	314,344
Total fair value		<u>\$ 2,361,106</u>

Interest Rate Risk – This 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 investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – This is the risk that in the event of the failure of the counterparty (e.g. broker/dealer) to honor a transaction, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have custodial credit risk policies for investments.

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 1,955,530
Investments per Statement of Net Position - Fiduciary Funds (Exhibit F-1)	405,576
Total investments	<u>\$ 2,361,106</u>

NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of December 31, 2018. The amount has been reduced by an allowance for an estimated uncollectible amount of \$170,000. Taxes receivable by year are as follows:

	As reported on:	
	<u>Exhibit A</u>	<u>Exhibit C-1</u>
Property:		
Levy of 2018	\$ 202,399	\$ 202,399
Unredeemed (under tax lien):		
Levy of 2017	45,684	45,684
Levy of 2016	36,012	36,012
Levies of 2015 and prior	21,811	21,811
Less: allowance for estimated uncollectible taxes	(170,000) *	-
Net taxes receivable	<u>\$ 135,906</u>	<u>\$ 305,906</u>

*The allowance for uncollectible property taxes is not recognized under the modified accrual basis of accounting (Exhibit C-1 and C-3) due to the 60-day rule as explained in Note 1-B. However, the allowance is recognized under the full accrual basis of accounting (Exhibits A and B).

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NOTE 7 – OTHER RECEIVABLES

Receivables at December 31, 2018, consisted of accounts (billings for police details, water, ambulance, and other user charges) and intergovernmental amounts arising from grants. Receivables are recorded on the Town’s financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

Receivables as of December 31, 2018 for the Town’s individual major funds in the aggregate including applicable allowances for uncollectible accounts are as follows:

	Governmental Activities		Business-type	Total
	General Fund	Transfer Station	Water Department	
Receivables:				
Accounts	\$ 228,385	\$ 4,164	\$ 114,904	\$ 347,453
Intergovernmental	7,301	12,195	-	19,496
Gross receivables	235,686	16,359	114,904	366,949
Less: allowance for uncollectibles	(205,788)	-	(2,488)	(208,276)
Net total receivables	<u>\$ 29,898</u>	<u>\$ 16,359</u>	<u>\$ 112,416</u>	<u>\$ 158,673</u>

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 is as follows:

	Balance, beginning	Additions	Deletions	Balance, ending
Governmental activities:				
At cost:				
Not being depreciated:				
Land	\$ 814,334	\$ -	\$ -	\$ 814,334
Construction in progress	-	38,000	-	38,000
Total capital assets not being depreciated	814,334	38,000	-	852,334
Being depreciated:				
Buildings and building improvements	2,786,698	-	-	2,786,698
Machinery, equipment, and vehicles	2,346,871	37,200	(34,041)	2,350,030
Infrastructure	295,759	50,000	-	345,759
Total capital assets being depreciated	5,429,328	87,200	(34,041)	5,482,487
Total all capital assets	6,243,662	125,200	(34,041)	6,334,821
Less accumulated depreciation:				
Buildings and building improvements	(402,925)	(66,506)	-	(469,431)
Machinery, equipment, and vehicles	(1,607,849)	(174,363)	34,894	(1,747,318)
Infrastructure	(101,716)	(29,031)	-	(130,747)
Total accumulated depreciation	(2,112,490)	(269,900)	34,894	(2,347,496)
Net book value, capital assets being depreciated	3,316,838	(182,700)	853	3,134,991
Net book value, all governmental activities capital assets	<u>\$ 4,131,172</u>	<u>\$ (144,700)</u>	<u>\$ 853</u>	<u>\$ 3,987,325</u>

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Capital assets continued:

	Balance, beginning	Additions	Deletions	Balance, ending
Business-type activities:				
At cost:				
Not being depreciated:				
Land	\$ 118,516	\$ -	\$ -	\$ 118,516
Being depreciated:				
Machinery and equipment	44,430	-	-	44,430
Infrastructure	5,116,633	-	-	5,116,633
Total capital assets being depreciated	5,161,063	-	-	5,161,063
Total all capital assets	5,279,579	-	-	5,279,579
Less accumulated depreciation:				
Machinery and equipment	(16,386)	(4,969)	-	(21,355)
Infrastructure	(1,164,230)	(177,790)	-	(1,342,020)
Total accumulated depreciation	(1,180,616)	(182,759)	-	(1,363,375)
Net book value, capital assets being depreciated	3,980,447	(182,759)	-	3,797,688
Net book value, all business-type activities capital assets	\$ 4,098,963	\$ (182,759)	\$ -	\$ 3,916,204

Depreciation expense was charged to functions of the Town based on their usage of the related assets. The amounts allocated to each function are as follows:

Governmental activities:		
General government		\$ 28,417
Public safety		108,905
Highways and streets		106,444
Sanitation		9,413
Culture and recreation		16,721
Total depreciation expense		<u>\$ 269,900</u>
Business-type activities:		
Water		<u>\$ 182,759</u>

NOTE 9 – INTERFUND BALANCES, INTERNAL BALANCES, AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2018 is as follows:

<i>Interfunds:</i>		
Receivable Fund	Payable Fund	Amount
General	Transfer station	\$ 104,655
Nonmajor	General	3,550
		<u>\$ 108,205</u>

The outstanding balances among funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Internal Balances – The composition of internal balances as of December 31, 2018 is as follows:

Receivable Fund	Payable Fund	Amount
General	Water	<u>\$ 200</u>

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Interfund Transfers - The composition of interfund transfers for the year ended December 31, 2018 is as follows:

	Transfers In:		
	General Fund	Water Department	Total
Transfers out:			
General fund	\$ -	\$ 38,100	\$ 38,100
Nonmajor fund	70,242	-	70,242
Total	\$ 70,242	\$ 38,100	\$ 108,342

During the year, transfers are used to (1) move revenues from the fund with collection authority to the fund responsible for expenditure and (2) move general fund resources to provide an annual subsidy.

NOTE 10 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments of \$1,635,630 at December 31, 2018 consist of the following:

General fund:	
Balance of the 2018-19 assessment due to:	
Lafayette Regional School District	\$ 769,415
Profile School District	607,107
Total general fund	1,376,522
Transfer station fund:	
Balance due to the Town of Sugar Hill	10,398
Balance due to the Town of Easton	5,199
Total transfer station fund	15,597
Agency fund:	
Balance of capital reserve funds held by the trustees of the trust funds on behalf of the Lafayette Regional School District	243,511
Total intergovernmental payables due	\$ 1,635,630

NOTE 11 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows of resources of at December 31, 2018 consist of amounts related to pensions totaling \$112,767 and amounts related to OPEB totaling \$7,238. For further discussion on these amounts, see Note 13 and 14 respectively.

Deferred inflows of resources are as follows:

	Government- wide	General Fund
Deferred property taxes not collected within 60 days of fiscal year-end	\$ -	\$ 82,653
Property tax payments received in advance of issuance of warrants	26,093	26,093
Highway block grant funds received per SB 38	39,905	39,905
Amounts related to pensions	102,191	-
Amounts related to OPEB	250	-
Total deferred inflows of resources	\$ 168,439	\$ 148,651

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NOTE 12 – LONG-TERM LIABILITIES

Changes in the Town’s long-term liabilities consisted of the following for the year ended December 31, 2018:

	Balance January 1, 2018 (as restated)	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Governmental activities:					
General obligation notes payable	\$ 1,503,793	\$ -	\$ (143,130)	\$ 1,360,663	\$ 76,809
Compensated absences	48,626	40,934	-	89,560	-
Pension related liability	659,320	-	(124,183)	535,137	-
Net other postemployment benefits	64,546	14,151	-	78,697	-
Total long-term liabilities	<u>\$ 2,276,285</u>	<u>\$ 55,085</u>	<u>\$ (267,313)</u>	<u>\$ 2,064,057</u>	<u>\$ 76,809</u>
Business-type activities:					
General obligation note payable	<u>\$ 1,825,550</u>	<u>\$ -</u>	<u>\$ (68,898)</u>	<u>\$ 1,756,652</u>	<u>\$ 70,458</u>

Long-term notes are comprised of the following:

Governmental activities:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2018	Current Portion
General obligation notes payable:						
Safety services building	\$ 1,700,000	2014	2034	2.84	\$ 1,343,995	\$ 73,045
Street light energy improvements	\$ 19,430	2017	2023	2.50	16,668	3,764
Total					<u>\$ 1,360,663</u>	<u>\$ 76,809</u>

Business-type activities:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2018	Current Portion
General obligation note payable:						
Water system improvement	\$ 2,267,000	2010	2038	2.25	<u>\$ 1,756,652</u>	<u>\$ 70,458</u>

The annual requirements to amortize all general obligation notes outstanding as of December 31, 2018, including interest payments, are as follows:

Governmental activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2019	\$ 76,809	\$ 38,040	\$ 114,849
2020	78,903	35,947	114,850
2021	81,243	33,606	114,849
2022	83,554	31,296	114,850
2023	82,802	28,945	111,747
2024-2028	445,178	108,380	553,558
2029-2033	512,174	40,858	553,032
Totals	<u>\$ 1,360,663</u>	<u>\$ 317,072</u>	<u>\$ 1,677,735</u>

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Annual requirements to amortize all general obligations notes outstanding as of December 31, 2018 continued:

Business-type activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2019	\$ 70,458	\$ 39,130	\$ 109,588
2020	72,051	37,537	109,588
2021	73,682	35,906	109,588
2022	75,349	34,239	109,588
2023	77,053	32,535	109,588
2024-2028	412,222	135,718	547,940
2029-2033	461,018	86,922	547,940
2034-2038	514,819	32,352	547,171
Totals	<u>\$ 1,756,652</u>	<u>\$ 434,339</u>	<u>\$ 2,190,991</u>

All debt is general obligation debt of the Town, which is backed by its full faith and credit, and will be repaid from general governmental revenues.

NOTE 13 – DEFINED BENEFIT PENSION PLAN

Plan Description – The New Hampshire Retirement System (NHRS or the System) is a public employee retirement system that administers one cost-sharing multiple-employer defined benefit pension plan (Pension Plan), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* – an amendment of GASB Statement No. 25. The Pension Plan was established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Pension 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 with in the State are eligible and required to participate in the Pension Plan. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

Benefits Provided – The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and available to pay retirement benefits to all members.

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 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 member attains 52.5 years of age by ¼ 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 earnable compensation and/or service.

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Contributions - The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 7% of earnable compensation. For fiscal year 2018, the Town contributed 25.33% for police, 27.79% for fire and 11.08% for other employees. The contribution requirement for the fiscal year 2018 was \$44,723, which was paid in full.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions – At December 31, 2018 the Town reported a liability of \$535,137 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 towns and school districts, actuarially determined. At June 30, 2018, the Town’s proportion was 0.01% which was a decrease of 0.002% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the Town recognized pension expense of \$55,330. At December 31, 2018 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 48,071	\$ 85,474
Changes in assumptions	37,034	-
Net difference between projected and actual investment earnings on pension plan investments	-	12,384
Differences between expected and actual experience	4,271	4,333
Contributions subsequent to the measurement date	23,391	-
Total	\$ 112,767	\$ 102,191

The \$23,391 reported as deferred outflows of resources related to pensions results from the Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending December 31,	
2019	\$ 19,264
2020	8,014
2021	(21,287)
2022	(18,806)
Thereafter	-
Totals	\$ (12,815)

Actuarial Assumptions – The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2017, using the following actuarial assumptions which, accordingly apply to 2018 measurements:

Inflation:	2.5%	
Salary increases:	5.6% average, including inflation	
Wage inflation	3.25%	
Investment rate of return:	7.25% 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 last experience study.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

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Long-term Rates of Return – The long-term expected rate of return on pension plan investment 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 rate of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. Following is a table presenting target allocations and long-term rates of return for 2018:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return 2018
Large Cap Equities	22.50%	4.25%
Small/Mid Cap Equities	7.50%	4.50%
Total domestic equity	30.00%	
Int'l Equities (unhedged)	13.00%	4.50%
Emerging Int'l Equities	7.00%	6.00%
Total international equity	20.00%	
Core Bonds	4.50%	0.50%
Short Duration	2.50%	(0.25%)
Global Multi-Sector Fixed Income	11.00%	1.80%
Absolute Return Fixed Income	7.00%	1.14%
Total fixed income	25.00%	
Private equity	5.00%	6.25%
Private debt	5.00%	4.25%
Opportunistic	5.00%	2.15%
Total alternative investments	15.00%	
Real estate	10.00%	3.25%
Total	100.00%	

Discount Rate – The discount rate used to measure the collective total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that 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 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 investment was applied to all periods of projected benefit payments to determine the collective total pension liability.

Sensitivity of the Town’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.25% 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 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
June 30, 2018	\$ 712,004	\$ 535,137	\$ 386,917

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit Pension Plan financial report.

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

14-A New Hampshire Retirement System (NHRS)

Plan Description – The New Hampshire Retirement System (NHRS or the System) administers a cost-sharing multiple-employer other postemployment benefit plan medical subsidy healthcare plan (OPEB Plan). For additional system information, please refer to the 2018 Comprehensive Annual Financial Report, which can be found on the system’s website at www.nhrs.org.

Benefits Provide - Benefit amounts and eligibility requirements for the OPEB Plan are set by state law (RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b), and members are designated in statute by type. The four membership types are Group II, Police Officers and Firefighters; Group I, Teachers; Group I, Political Subdivision Employees; and Group I, State Employees. The OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical insurance subsidy is a payment made by NHRS to the former employer or its insurance administrator toward the cost of health insurance for a qualified retiree, his/her qualified spouse, and his/her certified dependent children with a disability who are living in the household and being cared for by the retiree. If the health insurance premium amount is less than the medical subsidy amount, then only the health insurance premium amount will be paid. If the health insurance premium amount exceeds the medical subsidy amount, then the retiree or other qualified person is responsible for paying any portion that the employer does not pay.

Group I benefits are based on creditable service, age and retirement date. Group II benefits are based on hire date, age and creditable service. The OPEB plan is closed to new entrants.

Maximum medical subsidy rates paid during fiscal year 2018 were as follows:

For qualified retirees not eligible for Medicare, the amounts were \$375.56 for a single-person plan and \$751.12 for a two-person plan.

For those qualified retirees eligible for Medicare, the amounts were \$236.84 for a single-person plan and \$473.68 for a two-person plan.

Contributions – The OPEB Plan is funded by allocating to the 401(h) subtrust the lesser of: 25% of all employer contributions made in accordance with RSA 100-A:16 or the percentage of employer contributions determined by the actuary to be the minimum rate necessary to maintain the benefits provided under RSA 100-A:53-b, RSA 100-A:53-c, and RSA 100-A:53-d. For fiscal year 2018, the minimum rates determined by the actuary to maintain benefits were the lesser of the two options and were used to determine the employer contributions due to the 401(h) subtrust. The State Legislature has the authority to establish, amend and discontinue the contribution requirements of the OPEB Plan. Administrative costs are allocated to the OPEB Plan based on fund balances. For fiscal year 2018, the Town contributed 4.10% for police and fire, and 0.30% for other employees. The contribution requirement for the fiscal year 2018 was \$7,546, which was paid in full.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At December 31, 2018, the Town reported a liability of \$78,697 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Town’s proportion of the net OPEB liability was based on a projection of the Town’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2018, the Town’s proportion was 0.02% which was an increase of 0.003% from its proportion measured as of June 30, 2017.

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For the year ended December 31, 2018, the Town recognized OPEB expense of \$20,355. At December 31, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 2,990	\$ -
Net difference between projected and actual investment earnings on OPEB plan investments	-	250
Differences between expected and actual experience	462	-
Contributions subsequent to the measurement date	3,786	-
Total	\$ 7,238	\$ 250

The \$3,786 reported as deferred outflows of resources related to OPEB results from the Town contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending December 31,	
2019	\$ 3,374
2020	(78)
2021	(78)
2022	(16)
Thereafter	-
Totals	\$ 3,202

Actuarial Assumptions – The total OPEB liability in this report is based on an actuarial valuation performed as of June 30, 2018 and a measurement date of June 30, 2017. The total OPEB liability was determined using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Price inflation:	2.5 % per year
Wage inflation:	3.25 % per year
Salary increases:	5.6 % average, including inflation
Investment rate of return:	7.25 % net of OPEB plan investment expense, including inflation
Health care trend rate:	Not applicable, given that the benefits are fixed stipends

Mortality rates were based on the RP-2014 healthy annuitant and employee generational mortality tables for males and females with credibility adjustments, adjusted for fully generational mortality improvements using Scale MP-2015, based on last experience study.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

Long-term Rates of Return – The long-term expected rate of return on OPEB plan investment 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 rate of return net of investment expenses by the target asset allocation percentage and by adding expected inflation.

TOWN OF FRANCONIA, NEW HAMPSHIRE
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Following is a table presenting target allocations and long-term rates of return for 2018:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return <u>2018</u>
Large Cap Equities	22.50%	4.25%
Small/Mid Cap Equities	7.50%	4.50%
Total domestic equity	<u>30.00%</u>	
Int'l Equities (unhedged)	13.00%	4.50%
Emerging Int'l Equities	7.00%	6.00%
Total international equity	<u>20.00%</u>	
Core Bonds	4.50%	0.50%
Short Duration	2.50%	(0.25%)
Global Multi-Sector Fixed Income	11.00%	1.80%
Absolute Return Fixed Income	7.00%	1.14%
Total fixed income	<u>25.00%</u>	
Private equity	5.00%	6.25%
Private debt	5.00%	4.25%
Opportunistic	5.00%	2.15%
Total alternative investments	<u>15.00%</u>	
Real estate	10.00%	3.25%
Total	<u><u>100.00%</u></u>	

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2018 was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made under the current statute RSA 100-A:16 and that plan member contributions will be made under RSA 100-A:16. Based on those assumptions, the OPEB Plan’s fiduciary net position was projected to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the collective total OPEB liability.

Sensitivity of the Town’s Proportionate Share of the OPEB Liability to Changes in the Discount Rate – The following table presents the Town’s proportionate share of the OPEB liability calculated using the discount rate of 7.25% as well as what the Town’s proportionate share of the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
June 30, 2018	\$ 81,908	\$ 78,697	\$ 69,702

Sensitivity of the Town’s Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Assumption – GASB No. 75 requires the sensitivity of the OPEB liability to the healthcare cost trend assumption. Since the medical subsidy benefits are fixed stipends, there is no sensitivity to changes in the healthcare cost trend assumption.

OPEB Plan Fiduciary Net Position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit OPEB Plan financial report.

TOWN OF FRANCONIA, NEW HAMPSHIRE
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14-B Town of Franconia Retiree Health Benefit Program

The Town provides postemployment benefit options for health care to eligible retirees, terminated employees, and their dependents in accordance with the provisions of various employment contracts. The benefit levels, employee contributions, and employer contributions are governed by the Town's contractual agreements. Expenses for the cost of providing health insurance for currently enrolled retirees are recognized in the general fund of the funds financial statements as payments are made.

The Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* in 2015. GASB Statement No. 75 requires state and local government employers to recognize the net OPEB liability and the OPEB expense on their financial statements, along with the related deferred outflows and inflows of resources. The Town has not fully implemented GASB Statement No. 75 at December 31, 2018, or contracted with an actuarial firm to assist in evaluating the impact of this new standard on the single employer plan of the Town. The amounts that should be recorded as the net OPEB liability and the OPEB expense for the single employer plan is unknown.

NOTE 15 – GOVERNMENTAL and BUSINESS-TYPE ACTIVITIES NET POSITION

The government-wide Statement of Net Position reported net position at December 31, 2018 as follows:

	Governmental Activities	Business-type Activities	Total
Net investment in capital assets:			
Net book value, all capital assets	\$ 3,987,325	\$ 3,916,204	\$ 7,903,529
Less:			
General obligation notes payable	<u>(1,360,663)</u>	<u>(1,756,652)</u>	<u>(3,117,315)</u>
Total net investment in capital assets	<u>2,626,662</u>	<u>2,159,552</u>	<u>4,786,214</u>
Restricted net position:			
Perpetual care - nonexpendable	106,628	-	106,628
Perpetual care - expendable	23,740	-	23,740
Library	310,990	-	310,990
Water	-	213,741	213,741
Total restricted net position	<u>441,358</u>	<u>213,741</u>	<u>655,099</u>
Unrestricted	<u>2,010,177</u>	<u>-</u>	<u>2,010,177</u>
Total net position	<u>\$ 5,078,197</u>	<u>\$ 2,373,293</u>	<u>\$ 7,451,490</u>

NOTE 16 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2018 include the following:

	General Fund	Transfer Station Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable:				
Tax deeded property	\$ 118,845	\$ -	\$ -	\$ 118,845
Permanent fund - principal balance	-	-	106,628	106,628
Total nonspendable fund balance	<u>118,845</u>	<u>-</u>	<u>106,628</u>	<u>225,473</u>
Restricted:				
Library	310,990	-	-	310,990
MacLachlin memorial	3,425	-	-	3,425
Permanent - income balance	-	-	23,740	23,740
Total restricted fund balance	<u>314,415</u>	<u>-</u>	<u>23,740</u>	<u>338,155</u>

(Continued)

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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Governmental fund balances continued:

	General Fund	Transfer Station Fund	Nonmajor Funds	Total Governmental Funds
Committed:				
Expendable trust	1,235,259	-	-	1,235,259
Sanitation	-	37,334	-	37,334
Conservation	-	-	160,343	160,343
Total committed fund balance	<u>1,235,259</u>	<u>37,334</u>	<u>160,343</u>	<u>1,432,936</u>
Unassigned	<u>1,236,374</u>	<u>-</u>	<u>-</u>	<u>1,236,374</u>
Total governmental fund balances	<u>\$ 2,904,893</u>	<u>\$ 37,334</u>	<u>\$ 290,711</u>	<u>\$ 3,232,938</u>

NOTE 17 – PRIOR PERIOD ADJUSTMENT

Net position at January 1, 2018 was restated to give retroactive effect to the following prior period adjustment:

	Government-wide Statements
To restate for the cumulative changes related to implementation of GASB No. 75, see Note 2-C	\$ (60,597)
Net position, as previously reported	4,973,749
Net position, as restated	<u>\$ 4,913,152</u>

NOTE 18 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2018, the Town was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from January 1, 2018 to December 31, 2018 by Primex³, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The workers' compensation section of the self-insurance membership agreement permits Primex³ to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex³ foresees no likelihood of any additional assessment for this or any prior year.

The Town continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 19 – CONTINGENT LIABILITIES

The Town participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

NOTE 20 – TAX ABATEMENTS

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

The Town had no such agreements as of December 31, 2018.

NOTE 21 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through July 10, 2019, the date the December 31, 2018 financial statements were available to be issued, and the following was noted:

At the March 2019 annual meeting the voters of the Town approved three warrant articles for a total of \$138,785 to fund various trust funds with December 31, 2018 unassigned fund balance.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G
TOWN OF FRANCONIA, NEW HAMPSHIRE
Schedule of the Town's Proportionate Share of Net Pension Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,				
	2014	2015	2016	2017	2018
Town's proportion of the net pension liability	0.01%	0.01%	0.01%	0.01%	0.01%
Town's proportionate share of the net pension liability	\$ 449,501	\$ 462,649	\$ 645,188	\$ 659,320	\$ 535,137
Town's covered payroll	\$ 181,550	\$ 183,472	\$ 191,549	\$ 216,893	\$ 186,349
Town's proportionate share of the net pension liability as a percentage of its covered payroll	247.59%	252.16%	336.83%	303.98%	287.17%
Plan fiduciary net position as a percentage of the total pension liability	66.32%	65.47%	58.30%	62.66%	64.73%

The Note to the Required Supplementary Information – Pension Liability is an integral part of this schedule.

EXHIBIT H
TOWN OF FRANCONIA, NEW HAMPSHIRE
Schedule of Town Contributions - Pensions
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,				
	2014	2015	2016	2017	2018
Contractually required contribution	\$ 46,018	\$ 48,280	\$ 43,446	\$ 49,113	\$ 46,972
Contributions in relation to the contractually required contributions	46,018	48,280	43,446	49,113	46,972
Contribution deficiency (excess)	<u>\$ -</u>				
Town's covered payroll	<u>\$ 181,550</u>	<u>\$ 183,472</u>	<u>\$ 191,549</u>	<u>\$ 216,893</u>	<u>\$ 186,349</u>
Contributions as a percentage of covered payroll	25.35%	26.31%	22.68%	22.64%	25.21%

The Note to the Required Supplementary Information – Pension Liability is an integral part of this schedule.

TOWN OF FRANCONIA, NEW HAMPSHIRE

**NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION –
PENSION LIABILITY**

**FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018**

***Schedule of the Town's Proportionate Share of Net Pension Liability and
Schedule of Town Contributions - Pensions***

As required by GASB Statement No. 68, and as amended by GASB Statement No. 71, Exhibits G and H represent the actuarial determined costs associated with the Town's pension plan at December 31, 2018. These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2018:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	21 years beginning July 1, 2018 (30 years beginning July 1, 2009)
Asset Valuation Method	5-year smooth market for funding purposes
Price Inflation	2.5% per year
Wage Inflation	3.25% per year
Salary Increases	5.6% Average, including inflation
Municipal Bond Rate	3.62% per year
Investment Rate of Return	7.25% per year, net of investment expenses, including inflation
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2015.
Mortality	RP-2014 Employee generational mortality table for males and females, adjusted for mortality improvements using Scale MP -2015, based in the last experience study.

Other Information:

Notes Contribution rates for fiscal year 2018 were determined based on the benefit changes adopted under House Bill No. 2 as amended by 011-2513-CofC.

EXHIBIT I
TOWN OF FRANCONIA, NEW HAMPSHIRE
Schedule of the Town's Proportionate Share of the Net Other Postemployment Benefit Plan Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,	
	2017	2018
Town's proportion of the net OPEB liability	0.01%	0.02%
Town's proportionate share of the net OPEB liability (asset)	\$ 64,546	\$ 78,697
Town's covered payroll	\$ 216,893	\$ 186,349
Town's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	29.76%	42.23%
Plan fiduciary net position as a percentage of the total OPEB liability	7.91%	7.53%

The Note to the Required Supplementary Information – Other Postemployment Benefit Liability is an integral part of this schedule.

EXHIBIT J
TOWN OF FRANCONIA, NEW HAMPSHIRE
Schedule of Town Contributions - Other Postemployment Benefits
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,	
	2017	2018
Contractually required contribution	\$ 8,367	\$ 7,603
Contributions in relation to the contractually required contribution	<u>8,367</u>	<u>7,603</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	<u>\$ 216,893</u>	<u>\$ 186,349</u>
Contributions as a percentage of covered payroll	3.86%	4.08%

The Note to the Required Supplementary Information – Other Postemployment Benefit Liability is an integral part of this schedule.

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION –
OTHER POSTEMPLOYMENT BENEFIT LIABILITY
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

***Schedule of the Town’s Proportionate Share of Net Other Postemployment Benefits Liability and
Schedule of Town Contributions – Other Postemployment Benefits***

As required by GASB Statement No. 75, Exhibits I and J represent the actuarial determined costs associated with the Town’s other postemployment benefits at December 31, 2018. These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

There were no changes to benefit terms or assumptions in the current actuarial valuation report.

Methods and Assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	Not applicable under statutory funding
Asset Valuation Method	5-year smooth market: 20% corridor
Price Inflation	2.5% per year
Wage Inflation	3.25% per year
Salary Increases	5.6% Average, including inflation
Municipal Bond Rate	3.62% per year
Investment Rate of Return	7.25% per year, net of OPEB plan investment expense, including inflation for determining solvency contributions
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2015.
Mortality	RP-2014 Healthy Annuitant and Employee generational mortality tables for males and females with credibility adjustments, adjusted for fully generational mortality improvements using Scale MP-2015, based on the last experience study.

COMBINING AND INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
TOWN OF FRANCONIA, NEW HAMPSHIRE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2018

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 1,642,923	\$ 1,689,419	\$ 46,496
Yield	1,000	4,454	3,454
Payment in lieu of taxes	70,759	70,759	-
Interest and penalties on taxes	16,000	17,911	1,911
Total from taxes	<u>1,730,682</u>	<u>1,782,543</u>	<u>51,861</u>
Licenses, permits, and fees:			
Motor vehicle permit fees	250,000	290,616	40,616
Building permits	5,000	9,015	4,015
Other	6,000	124	(5,876)
Total from licenses, permits, and fees	<u>261,000</u>	<u>299,755</u>	<u>38,755</u>
Intergovernmental:			
State:			
Meals and rooms distribution	57,748	57,748	-
Highway block grant	54,502	59,599	5,097
Other	-	6,000	6,000
Federal:			
FEMA	-	36,165	36,165
From other governments	37,804	42,604	4,800
Total from intergovernmental	<u>150,054</u>	<u>202,116</u>	<u>52,062</u>
Charges for services:			
Income from departments	79,500	161,673	82,173
Miscellaneous:			
Sale of municipal property	13,000	11,025	(1,975)
Interest on investments	1,500	3,041	1,541
Other	37,800	114,537	76,737
Total from miscellaneous	<u>52,300</u>	<u>128,603</u>	<u>76,303</u>
Other financing sources:			
Transfers in	283,001	325,941	42,940
Total revenues and other financing sources	2,556,537	<u>\$ 2,900,631</u>	<u>\$ 344,094</u>
Unassigned fund balance used to reduce tax rate	171,390		
Amounts voted from fund balance	150,342		
Total revenues, other financing sources, and use of fund balance	<u>\$ 2,878,269</u>		

SCHEDULE 2
TOWN OF FRANCONIA, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations and Expenditures (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2018

	Appropriations	Expenditures	Variance Positive (Negative)
Current:			
General government:			
Executive	\$ 170,513	\$ 157,267	\$ 13,246
Election and registration	39,032	39,820	(788)
Financial administration	13,730	13,453	277
Revaluation of property	20,922	20,923	(1)
Legal	19,388	21,997	(2,609)
Personnel administration	257,232	238,031	19,201
Planning and zoning	7,722	2,669	5,053
General government buildings	141,897	142,147	(250)
Cemeteries	19,006	15,890	3,116
Insurance, not otherwise allocated	37,010	35,996	1,014
Advertising and regional associations	9,000	9,000	-
Total general government	<u>735,452</u>	<u>697,193</u>	<u>38,259</u>
Public safety:			
Police	258,960	252,397	6,563
Ambulance	69,650	81,374	(11,724)
Fire	97,890	66,354	31,536
Building inspection	3,000	4,008	(1,008)
Emergency management	4,000	3,698	302
Other	45,500	48,221	(2,721)
Total public safety	<u>479,000</u>	<u>456,052</u>	<u>22,948</u>
Highways and streets:			
Highways and streets	383,082	383,079	3
Street lighting	16,000	20,232	(4,232)
Total highways and streets	<u>399,082</u>	<u>403,311</u>	<u>(4,229)</u>
Health:			
Health agencies	<u>23,480</u>	<u>23,280</u>	<u>200</u>
Welfare:			
Administration and direct assistance	<u>6,068</u>	<u>20,626</u>	<u>(14,558)</u>
Culture and recreation:			
Parks and recreation	212,433	202,590	9,843
Library	83,500	83,500	-
Patriotic purposes	1,000	900	100
Other	421	59	362
Total culture and recreation	<u>297,354</u>	<u>287,049</u>	<u>10,305</u>
Conservation	<u>1,000</u>	<u>735</u>	<u>265</u>
Debt service:			
Principal of long-term debt	154,572	140,368	14,204
Interest on long-term debt	67,924	43,689	24,235
Interest on tax anticipation notes	3,500	99	3,401
Total debt service	<u>225,996</u>	<u>184,156</u>	<u>41,840</u>
Capital outlay	<u>182,460</u>	<u>163,475</u>	<u>18,985</u>
Other financing uses:			
Transfers out	<u>528,377</u>	<u>465,436</u>	<u>62,941</u>
Total appropriations, expenditures, and other financing uses	<u>\$ 2,878,269</u>	<u>\$ 2,701,313</u>	<u>\$ 176,956</u>

SCHEDULE 3
TOWN OF FRANCONIA, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance
For the Fiscal Year Ended December 31, 2018

Unassigned fund balance, beginning (Non-GAAP Budgetary Basis)		\$ 920,547
Changes:		
Unassigned fund balance used to reduce 2018 tax rate		(171,390)
Amounts voted from fund balance		(150,342)
2018 Budget summary:		
Revenue surplus (Schedule 1)	\$ 344,094	
Unexpended balance of appropriations (Schedule 2)	176,956	
2018 Budget surplus		521,050
Decrease in nonspendable fund balance		29,225
Increase in restricted fund balance		(63)
Unassigned fund balance, ending (Non-GAAP Budgetary Basis)		1,149,027
Reconciliation on Non-GAAP Budgetary Basis to GAAP Basis		
To record deferred property taxes not collected within 60 days of the fiscal year-end, not recognized on a budgetary basis		(82,653)
Elimination of the allowance for uncollectible taxes		170,000
Unassigned fund balance, ending, GAAP basis (Exhibit C-1)		<u>\$ 1,236,374</u>

SCHEDULE 4
TOWN OF FRANCONIA, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2018

	Special Revenue Fund <u>Conservation Commission</u>	Capital Project Fund <u>Safety Services Building</u>	Permanent Fund <u>Fund</u>	Total
ASSETS				
Cash and cash equivalents	\$ 707	\$ -	\$ 7,739	\$ 8,446
Investments	156,086	-	122,629	278,715
Interfund receivable	3,550	-	-	3,550
Total assets	<u>\$ 160,343</u>	<u>\$ -</u>	<u>\$ 130,368</u>	<u>\$ 290,711</u>
FUND BALANCES				
Nonspendable	\$ -	\$ -	\$ 106,628	\$ 106,628
Restricted	-	-	23,740	23,740
Committed	160,343	-	-	160,343
Total fund balances	<u>\$ 160,343</u>	<u>\$ -</u>	<u>\$ 130,368</u>	<u>\$ 290,711</u>

SCHEDULE 5
TOWN OF FRANCONIA, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2018

	Special Revenue Fund <u>Conservation Commission</u>	Capital Project Fund <u>Safety Services Building</u>	Permanent Fund	Total
Revenues:				
Taxes	\$ 3,550	\$ -	\$ -	\$ 3,550
Miscellaneous	2,674	8	4,354	7,036
Total revenues	<u>6,224</u>	<u>8</u>	<u>4,354</u>	<u>10,586</u>
Expenditures:				
Current:				
General government	-	-	8,319	8,319
Conservation	60	-	-	60
Total expenditures	<u>60</u>	<u>-</u>	<u>8,319</u>	<u>8,379</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,164</u>	<u>8</u>	<u>(3,965)</u>	<u>2,207</u>
Other financing uses:				
Transfers out	<u>-</u>	<u>(70,242)</u>	<u>-</u>	<u>(70,242)</u>
Net change in fund balances	6,164	(70,234)	(3,965)	(68,035)
Fund balances, beginning	154,179	70,234	134,333	358,746
Fund balances, ending	<u>\$ 160,343</u>	<u>\$ -</u>	<u>\$ 130,368</u>	<u>\$ 290,711</u>



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Board of Selectmen
Town of Franconia
Franconia, New Hampshire

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major governmental and proprietary fund, and aggregate remaining fund information of the Town of Franconia, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Town of Franconia's basic financial statements and have issued our report thereon dated July 10, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Franconia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Franconia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Franconia's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness:

2018-01 Bank Reconciliations

During our testing of the Town's bank reconciliations, we noted that while Town Treasurer is reconciling the various cash accounts, the reconciliations are not always being compared to the cash accounts on the general ledger to ensure that they are in agreement. In addition, it was noted that the bank reconciliations were not always done in a timely manner. Most problems encountered within the area of cash can be avoided if a proper system of checks and balances is incorporated into the Town's procedures. We recommend that Town Treasurer reconcile monthly all of the bank accounts in a timely manner then compare them to the general ledger with the Town Administrator and that any differences between the two be promptly investigated and adjusted once adequate explanations are obtained. This process will substantially increase control over cash.

Management's Response: The Town Administrator will continue to work with the Treasurer in an effort to reconcile to the general ledger.

Town of Franconia
Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Town of Franconia's internal control to be significant deficiencies:

2018-02 Adjusting Journal Entries

During our review of the Town's adjusting journal entries, we noted that there has been no review of the journal entries made. Without complete separation of duties, particularly between the approval and recording of adjusting journal entries, transactions may be inaccurately recorded in the general ledger through a journal entry and not be detected. The potential result would be that the financial statements may be materially misstated. We recommend that a policy be developed for journal entries and that all journal entries be reviewed and approved by the Board or another appropriate individual other than the individual responsible for recording the journal entries in the general ledger.

In addition, we are recommending that when journal entries are made that they are supported by appropriate supporting documentation. This documentation should appropriately indicate that the correct accounts are being charged and in the appropriate amounts.

Management's Response: Adjusting journal entries are now being reported and reviewed by the Board of Selectmen.

2018-03 Property Taxes and Water Rents

We noted that property tax and water rent receivables are not reconciled between the Tax Collector's records and the Town's general ledger. The lack of reconciliation between the general ledger and Tax Collector has led to the inability to determine accurate accounts receivable balances on the general ledger. We strongly suggest that procedures be established to ensure that the property and lien receivable balances as well as the water receivable balances are reconciled monthly between the general ledger and the Tax Collector on a consistent and timely basis.

Management's Response: The Town Administrator will work on this process and will also work with the Water Department secretary in an effort to reconcile between the tax collector and the general ledger.

2018-04 Ambulance Revenue and Receivables

Upon review of the internal controls over the ambulance receivables and revenue we noted that there is no reconciliation process in place to determine that what is being given to the third-party billing company is actually being billed. In addition, there is no formal process for the write-off of old outstanding receivables. Finally, the monthly billing information is not being reconciled to the Town's general ledger until year-end. Accounting tasks such as monthly reconciliation of the Tempsis run reports to the third-party billing company's reports would play a key role in proving the accuracy of accounting data and information included in any interim financial reports. Therefore, in order to provide more accurate and timely accounting information, and to ensure that all runs are being billed, we recommend that the Town establish effective review and reconciliation policies and procedures as a customary part of the accounting process. This would involve monthly reconciliations of the third-party billing, write-offs, and payment reports to the monthly run sheets and reconciliation to the Town's general ledger system. We also recommend that a policy be established for the approval of all write-offs.

Management's Response: The Town Administrator will work with the Life Squad Director in an effort to reconcile.

2018-05 Transfer Station

When reviewing the internal controls over the processes at the Town's transfer station we noted that the Town does not have a scale to weigh bulk item disposals in order to determine their weight and the accurate amount of fees to be paid for the disposal. Presently, the transfer station employees estimate the disposal weights. A more formal process should be in place to determine disposal weights so that the Town makes sure that it is receiving the correct amount of disposal fees. We recommend that the Town obtain a scale or some other means of weighing debris so that the proper amount of fees can be charged and collected by the Town.

In addition, we noted that each employee has access to the cash register, as well as the lockbox used to store the cash receipts prior to deposit being made. Presently the cash register is not used as a control device. The objective of internal control over cash receipts is to obtain control over the amounts received at the time of receipt. We feel that limiting access to the cash register and lockbox will result in much greater internal control. To achieve this control, we recommend that the all receipts be processed through the cash register with the cash or checks collected and a prenumbered cash receipt, which has been initialed by the employee who collected the money, be included with the payment in the cash drawer. Then at the end of the day the

Town of Franconia

***Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards***

Transfer Station Supervisor should perform a cash register reconciliation to the cash and checks collected. If not deposited that day then the lockbox can be used but the access to it should be limited to the Transfer Station Supervisor.

Management's Response: The Transfer Station Supervisor is and has been the only person with access to the lockbox. The cash drawer is balanced on a weekly basis by the Supervisor. Numbered receipts are and have been used over the course of 2018. The Town made an effort to purchase scales for more accurate fees, however, the article was voted down. We will continue to look at options for accurately assessing fees.

2018-06 Town Policies

The Town's control policies require that management and employees establish and maintain an environment throughout the Town that sets a positive and supportive attitude toward internal control and conscientious management. The control environment established by the Board of Selectmen sets the tone for how Town employees and elected officials conduct its business.

As the Board of Selectmen, Trustees of Trust Funds, Library Trustees and department heads strive to achieve the goals of the Town and provide accountability for their operations, they need to continually examine internal controls to determine how well they are performing, how they may be improved, and the degree to which they help identify and address major risks for fraud, waste, abuse and mismanagement.

We noted that while there is an effort to do so, the Town has not yet established formal policies for fraud, conflict of interest, risk management, disaster recovery, cash receipts, purchasing, credit cards and any other policies necessary to protect the operations of the Town. These policies are essential tools to manage the Town's operations efficiently and effectively. The absence of these policies does not mean that the Board of Selectmen does not have a strong commitment to an environment that stresses integrity in the conduct of the Town's operations, nor does it suggest that the Board of Selectmen have little disregard for the internal control procedures.

We strongly recommend that the Board of Selectmen develop and formally adopt the above noted policies in order to clearly communicate the Town's position on the various issues.

Management's Response: Policies continue to be looked at and worked on.

In addition, we noted other matters involving internal control and its operation that we have reported to the management of the Town of Franconia in a separate letter, also dated July 10, 2019.

Town of Franconia's Response to Findings

The Town of Franconia's response to the findings identified in our audit are described above and the Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



July 10, 2019

PLODZIK & SANDERSON
Professional Association