

**TOWN OF FRANCONIA,  
NEW HAMPSHIRE**

**ANNUAL FINANCIAL REPORT**

**AS OF AND FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2019**

**TOWN OF FRANCONIA, NEW HAMPSHIRE**  
**ANNUAL FINANCIAL REPORT**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2019**

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**TOWN OF FRANCONIA, NEW HAMPSHIRE**  
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# PLODZIK & SANDERSON

*Professional Association/Accountants & Auditors*

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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, 2019, 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 from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major governmental and proprietary fund, and aggregate remaining fund information of the Town of Franconia, as of December 31, 2019, and the respective changes in financial position and, the respective budgetary comparison for the general fund and the 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 2019 the Town adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

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

*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,
- Schedule of Changes in the Town's Total Other Postemployment Benefits Liability and Related Ratios, 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.

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 June 16, 2020 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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*

June 16, 2020

PLODZIK & SANDERSON  
Professional Association

***BASIC FINANCIAL STATEMENTS***

**EXHIBIT A**  
**TOWN OF FRANCONIA, NEW HAMPSHIRE**  
**Statement of Net Position**  
**December 31, 2019**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,144,686	\$ 94,114	\$ 1,238,800
Investments	2,234,201	85,389	2,319,590
Taxes receivables (net)	203,525	-	203,525
Account receivables (net)	56,682	116,856	173,538
Intergovernmental receivable	12,656	-	12,656
Tax deeded property, subject to resale	112,372	-	112,372
Capital assets:			
Land	814,334	118,516	932,850
Other capital assets, net of depreciation	3,056,123	3,616,259	6,672,382
Total assets	<u>7,634,579</u>	<u>4,031,134</u>	<u>11,665,713</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Amounts related to pensions	72,828	-	72,828
Amounts related to other postemployment benefits	14,516	-	14,516
Total deferred outflows of resources	<u>87,344</u>	<u>-</u>	<u>87,344</u>
<b>LIABILITIES</b>			
Accrued salaries and benefits	5,007	-	5,007
Accrued interest payable	7,777	1,091	8,868
Long-term liabilities:			
Due within one year	97,310	72,051	169,361
Due in more than one year	2,039,880	1,614,143	3,654,023
Total liabilities	<u>2,149,974</u>	<u>1,687,285</u>	<u>3,837,259</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	5,796	-	5,796
Amounts related to pensions	88,461	-	88,461
Amounts related to other postemployment benefits	468	-	468
Total deferred inflows of resources	<u>94,725</u>	<u>-</u>	<u>94,725</u>
<b>NET POSITION</b>			
Net investment in capital assets	2,586,603	2,048,581	4,635,184
Restricted	494,747	295,268	790,015
Unrestricted	2,395,874	-	2,395,874
Total net position	<u>\$ 5,477,224</u>	<u>\$ 2,343,849</u>	<u>\$ 7,821,073</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, 2019

	Program Revenues		Net (Expense) Revenue and Change in Net Position		Total	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities		Business-type Activities
<b>Governmental activities:</b>						
General government	\$ 824,015	\$ 12,249	\$ -	\$ (811,766)	\$ -	\$ (811,766)
Public safety	571,668	147,517	6,000	(418,151)	-	(418,151)
Highways and streets	395,412	-	95,091	(300,321)	-	(300,321)
Sanitation	290,842	207,637	-	(83,205)	-	(83,205)
Health	22,480	-	-	(22,480)	-	(22,480)
Welfare	3,259	-	-	(3,259)	-	(3,259)
Culture and recreation	335,988	91,522	-	(244,466)	-	(244,466)
Conservation	310	-	-	(310)	-	(310)
Interest on long-term debt	37,592	-	-	(37,592)	-	(37,592)
Total governmental activities	<u>2,481,566</u>	<u>458,925</u>	<u>101,091</u>	<u>(1,921,550)</u>	<u>-</u>	<u>(1,921,550)</u>
<b>Business-type activities:</b>						
Water	338,307	309,322	-	-	(28,985)	(28,985)
Total	<u>\$2,819,873</u>	<u>\$768,247</u>	<u>\$ 101,091</u>	<u>(1,921,550)</u>	<u>(28,985)</u>	<u>(1,950,535)</u>
<b>General revenues:</b>						
<b>Taxes:</b>						
Property				1,788,016	-	1,788,016
Other				118,937	-	118,937
Motor vehicle permit fees				288,552	-	288,552
Licenses and other fees				19,511	-	19,511
Grants and contributions not restricted to specific programs				69,821	-	69,821
Unrestricted investment earnings				54,035	(38,559)	15,476
Miscellaneous				231,659	-	231,659
Total general revenues				<u>2,570,531</u>	<u>(38,559)</u>	<u>2,531,972</u>
Legal settlement inception				(36,815)	-	(36,815)
Intergovernmental transfer out				(46,519)	-	(46,519)
Transfers				(38,100)	38,100	-
Total general revenues, contributions, and transfers				<u>2,449,097</u>	<u>(459)</u>	<u>2,448,638</u>
Change in net position				527,547	(29,444)	498,103
Net position, beginning, as restated (see Note 17)				<u>4,949,677</u>	<u>2,373,293</u>	<u>7,322,970</u>
Net position, ending				<u>\$ 5,477,224</u>	<u>\$ 2,343,849</u>	<u>\$7,821,073</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, 2019**

	General	Transfer Station	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,068,860	\$ -	\$ 1,274	\$ 1,070,134
Investments	6,666	-	308,302	314,968
Receivables, net of allowance for uncollectible:				
Taxes	303,525	-	-	303,525
Accounts	56,682	-	-	56,682
Intergovernmental receivable	8,248	4,408	-	12,656
Interfund receivable	4,408	-	8,240	12,648
Tax deeded property, subject to resale	112,372	-	-	112,372
Restricted assets:				
Cash and cash equivalents	74,552	-	-	74,552
Investments	1,919,233	-	-	1,919,233
<b>Total assets</b>	<b>\$ 3,554,546</b>	<b>\$ 4,408</b>	<b>\$ 317,816</b>	<b>\$ 3,876,770</b>
<b>LIABILITIES</b>				
Accrued salaries and benefits	\$ 5,007	\$ -	\$ -	\$ 5,007
Interfund payable	8,240	4,408	-	12,648
<b>Total liabilities</b>	<b>13,247</b>	<b>4,408</b>	<b>-</b>	<b>17,655</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - Property taxes	70,639	-	-	70,639
<b>FUND BALANCES</b>				
Nonspendable	112,372	-	119,298	231,670
Restricted	352,358	-	26,590	378,948
Committed	1,636,228	-	171,928	1,808,156
Unassigned	1,369,702	-	-	1,369,702
<b>Total fund balances</b>	<b>3,470,660</b>	<b>-</b>	<b>317,816</b>	<b>3,788,476</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 3,554,546</b>	<b>\$ 4,408</b>	<b>\$ 317,816</b>	<b>\$ 3,876,770</b>

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, 2019*

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Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances of governmental funds (Exhibit C-1)		\$ 3,788,476
Capital assets used in governmental activities are not current financial resources, therefore, are not reported in the governmental funds.		
Cost	\$ 6,495,153	
Less accumulated depreciation	<u>(2,624,696)</u>	
		3,870,457
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	\$ 72,828	
Deferred inflows of resources related to pensions	(88,461)	
Deferred outflows of resources related to OPEB	14,516	
Deferred inflows of resources related to OPEB	<u>(468)</u>	
		(1,585)
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (12,648)	
Payables	<u>12,648</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.		64,843
Allowance for uncollectible property taxes that is recognized on a full accrual basis, but not on the modified accrual basis.		(100,000)
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(7,777)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the governmental funds.		
Notes	\$ 1,283,854	
Legal settlement	36,815	
Compensated absences	63,923	
Net pension liability	519,221	
Other postemployment benefits	<u>233,377</u>	
		<u>(2,137,190)</u>
Net position of governmental activities (Exhibit A)		<u>\$ 5,477,224</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, 2019**

	General	Transfer Station	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 1,846,523	\$ -	\$ 8,240	\$ 1,854,763
Licenses and permits	308,063	-	-	308,063
Intergovernmental	219,732	55,568	-	275,300
Charges for services	198,266	152,069	-	350,335
Miscellaneous	267,650	1,508	20,738	289,896
Total revenues	<u>2,840,234</u>	<u>209,145</u>	<u>28,978</u>	<u>3,078,357</u>
<b>EXPENDITURES</b>				
Current:				
General government	715,349	-	-	715,349
Public safety	453,120	-	-	453,120
Highways and streets	290,408	-	-	290,408
Sanitation	-	289,182	-	289,182
Health	22,480	-	-	22,480
Welfare	3,259	-	-	3,259
Culture and recreation	329,077	-	-	329,077
Conservation	250	-	60	310
Debt service:				
Principal	76,809	-	-	76,809
Interest	38,041	-	-	38,041
Capital outlay	220,165	-	-	220,165
Total expenditures	<u>2,148,958</u>	<u>289,182</u>	<u>60</u>	<u>2,438,200</u>
Excess (deficiency) of revenues over (under) expenditures	<u>691,276</u>	<u>(80,037)</u>	<u>28,918</u>	<u>640,157</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,813	89,222	-	91,035
Transfers out	(127,322)	-	(1,813)	(129,135)
Intergovernmental transfer out	-	(46,519)	-	(46,519)
Total other financing sources (uses)	<u>(125,509)</u>	<u>42,703</u>	<u>(1,813)</u>	<u>(84,619)</u>
Net change in fund balances	565,767	(37,334)	27,105	555,538
Fund balances, beginning	2,904,893	37,334	290,711	3,232,938
Fund balances, ending	<u>\$ 3,470,660</u>	<u>\$ -</u>	<u>\$ 317,816</u>	<u>\$ 3,788,476</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, 2019*

Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balances of governmental funds (Exhibit C-3)		\$ 555,538
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	\$ 198,332	
Depreciation expense	<u>(277,200)</u>	(78,868)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net assets.		(38,000)
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	\$ (91,035)	
Transfers out	<u>91,035</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	(17,810)	
Change in allowance for uncollectible taxes	<u>70,000</u>	52,190
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.		
Inception of legal settlement	\$ (36,815)	
Repayment of note principal	<u>76,809</u>	39,994
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	\$ 449	
Decrease in compensated absences payable	25,637	
Net change in net pension liability, and deferred outflows and inflows of resources related to pensions	(10,293)	
Net change in net other postemployment benefits liability and deferred outflows and inflows of resources related to other postemployment benefits	<u>(19,100)</u>	(3,307)
Changes in net position of governmental activities (Exhibit B)		<u>\$ 527,547</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, 2019**

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,917,847	\$ 1,917,847	\$ 1,898,713	\$ (19,134)
Licenses and permits	290,500	290,500	308,063	17,563
Intergovernmental	210,400	210,400	219,732	9,332
Charges for services	80,500	80,500	197,216	116,716
Miscellaneous	45,800	45,800	90,720	44,920
Total revenues	<u>2,545,047</u>	<u>2,545,047</u>	<u>2,714,444</u>	<u>169,397</u>
<b>EXPENDITURES</b>				
Current:				
General government	724,597	724,597	715,349	9,248
Public safety	497,089	497,089	453,120	43,969
Highways and streets	332,548	332,548	290,408	42,140
Health	22,680	22,680	22,480	200
Welfare	8,140	8,140	3,259	4,881
Culture and recreation	222,041	305,461	298,029	7,432
Conservation	1,000	1,000	250	750
Debt service:				
Principal	88,923	88,923	76,809	12,114
Interest	67,527	67,527	38,041	29,486
Capital outlay	189,620	238,958	220,165	18,793
Total expenditures	<u>2,154,165</u>	<u>2,286,923</u>	<u>2,117,910</u>	<u>169,013</u>
Excess of revenues over expenditures	<u>390,882</u>	<u>258,124</u>	<u>596,534</u>	<u>338,410</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	71,120	203,878	193,742	(10,136)
Transfers out	(600,787)	(600,787)	(611,157)	(10,370)
Total other financing sources (uses)	<u>(529,667)</u>	<u>(396,909)</u>	<u>(417,415)</u>	<u>(20,506)</u>
Net change in fund balances	<u>\$ (138,785)</u>	<u>\$ (138,785)</u>	179,119	<u>\$ 317,904</u>
Decrease in nonspendable fund balance			6,473	
Increase in restricted fund balance			(74)	
Unassigned fund balance, beginning			1,149,027	
Unassigned fund balance, ending			<u>\$ 1,334,545</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 (Non-GAAP Budgetary Basis)*  
**Transfer Station Fund**  
*For the Fiscal Year Ended December 31, 2019*

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Intergovernmental	\$ 84,690	\$ 55,568	\$(29,122)
Charges for services	124,000	152,069	28,069
Miscellaneous	-	1,508	1,508
Total revenues	<u>208,690</u>	<u>209,145</u>	<u>455</u>
<b>EXPENDITURES</b>			
Current:			
Sanitation	325,642	289,182	36,460
Excess (deficiency) of revenues over (under) expenditures	<u>(116,952)</u>	<u>(80,037)</u>	<u>36,915</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	116,952	89,222	(27,730)
Intergovernmental transfer out	-	(46,519)	(46,519)
Total other financing sources (uses)	<u>116,952</u>	<u>42,703</u>	<u>(74,249)</u>
Net change in fund balances	<u>\$ -</u>	<u>(37,334)</u>	<u>\$(37,334)</u>
Fund balance, beginning		37,334	
Fund balance, ending		<u>\$ -</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, 2019*

	Business-type Activities
	Enterprise Fund
	Water Department
<b>ASSETS</b>	
Cash and cash equivalents	\$ 94,114
Investments	85,389
Accounts receivable (net)	116,856
Capital assets:	
Land	118,516
Other capital assets, net of depreciation	3,616,259
Total assets	4,031,134
<b>LIABILITIES</b>	
Current liabilities:	
Accrued interest payable	1,091
Long term liabilities:	
Due within one year	72,051
Due in more than one year	1,614,143
Total liabilities	1,687,285
<b>NET POSITION</b>	
Net investment in capital assets	2,048,581
Restricted	295,268
Total net position	\$ 2,343,849

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, 2019**

	Business-type Activities
	Enterprise Fund
	Water Department
Operating revenues:	
User charges	\$ 307,323
Fees and interest	1,999
Total operating revenues	309,322
Operating expenses:	
Salaries and wages	15,201
Operation and maintenance	139,548
Contractual services	2,129
Depreciation and amortization	181,429
Total operating expenses	338,307
Operating loss	(28,985)
Nonoperating revenue (expense):	
Interest income	1,526
Interest expense	(40,085)
Total nonoperating revenues	(38,559)
Other financing sources:	
Transfers in	38,100
Change in net position	(29,444)
Net position, beginning	2,373,293
Net position, ending	\$ 2,343,849

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, 2019**

	Business-type Activities
	Enterprise Fund
	Water Department
Cash flows from operating activities:	
Receipts from customers and users	\$ 307,662
Payments to employees	(15,201)
Payments to suppliers	(141,877)
Net cash provided by operating activities	150,584
Cash flows from capital and related financing activities:	
Principal paid on bonds	(70,458)
Interest paid	(40,131)
Net cash used for capital and related financing activities	(110,589)
Cash flows from non-capital financing activities:	
Operating transfer in	38,100
Cash flows from investing activities:	
Purchase of investments	(80,138)
Interest received	1,526
Net cash used for investing activities	(78,612)
Net increase/decrease in cash	(517)
Cash, beginning	94,631
Cash, ending	\$ 94,114

***Reconciliation of Operating Loss to Net Cash Provided by Operating Activities***

Operating loss	\$ (28,985)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	181,429
Increase in receivables	(1,660)
Decrease in internal balances	(200)
Total adjustments	179,569
Net cash provided by operating activities	\$ 150,584

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 Fiduciary Net Position**  
**December 31, 2019**

	Private Purpose Trust Funds	All Custodial Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 755	\$ 1,693,209
Investments	175,058	278,641
Total assets	175,813	1,971,850
<b>LIABILITIES</b>		
Intergovernmental payables:		
School	-	1,684,103
Total liabilities	-	1,684,103
<b>NET POSITION</b>		
Restricted	\$ 175,813	\$ 287,747

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 Fiduciary Net Position**  
**For the Fiscal Year Ended December 31, 2019**

	Private Purpose Trust Funds	All Custodial Funds
<b>ADDITIONS</b>		
Contributions	\$ -	\$ 25,000
Investment earnings	5,717	5,081
Change in fair market value	15,744	14,155
Tax collections for other governments	-	3,722,929
Total additions	<u>21,461</u>	<u>3,767,165</u>
<b>DEDUCTIONS</b>		
Benefits paid	18,799	-
Payments of taxes to other governments	-	3,722,929
Total deductions	<u>18,799</u>	<u>3,722,929</u>
Change in net position	2,662	44,236
Net position, beginning, as restated (see Note 17)	173,151	243,511
Net position, ending	<u>\$ 175,813</u>	<u>\$ 287,747</u>

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**  
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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 2019 the Town implemented GASB Statement No. 84, *Fiduciary Activities*, which changed the way fiduciary activities are recorded. See Note 2-C 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.

**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. 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. 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 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.

**TOWN OF FRANCONIA, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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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, sanitation, 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.

**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 two 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 Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The Town’s fiduciary funds are private purpose trust and custodial funds, which are custodial in nature. 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.

**Custodial Fund** – are custodial in nature and do not belong to the primary government. A custodial fund is used to account for assets held on behalf of outside parties, including other governments.

**TOWN OF FRANCONIA, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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***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 specific purposes.

***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 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), U.S. government obligations, and corporate bonds would be examples of Level 2 investments.

**Level 3** – Inputs are significant unobservable inputs.

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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:

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

***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 either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances

**TOWN OF FRANCONIA, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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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 15, 2019 and October 13, 2019, and due on July 1, 2019 and December 5, 2019. Interest accrues at a rate of 12% (from January 1, 2019 through March 31, 2019) and 8% (after April 1, 2019) on bills outstanding after the due date and 18% (from January 1, 2019 through March 31, 2019) and 14% (after April 1, 2019) on tax liens outstanding. The Town placed a lien on all outstanding taxes from 2018 on June 25, 2019.

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, Profile School District, Lafayette Regional School District, and Grafton County, which are remitted to these entities as required by law.

The Town net assessed valuation as of April 1, 2019 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 282,620,090
For all other taxes	\$ 287,867,890

The tax rates and amounts assessed for the year ended December 31, 2019 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
	<u>Valuation</u>	<u>Assessed</u>
Municipal portion	\$6.01	\$ 1,728,891
School portion:		
State of New Hampshire	\$2.27	641,195
Local	\$8.83	2,542,026
County portion	<u>\$1.87</u>	<u>539,708</u>
Total	<u>\$18.98</u>	<u>\$ 5,451,820</u>

***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, 2019.

***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/expenditure) 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.

**TOWN OF FRANCONIA, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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*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. Deferred inflows of resources consist of property tax receivable and other receivables not collected within 60 days after year-end.

***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 the Town's 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***

The Town maintains two separate other postemployment benefit plans (OPEB), 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.

***Single Employer Plan*** – For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information has been determined based on the Town's actuarial report. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms.

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***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.

**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.

**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 practice 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 funds. Except as reconciled below, the budget was adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP).

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.

State statutes require balanced budgets but provide for the use of beginning unassigned fund balance to achieve that end. For the fiscal year 2019, none of the beginning general fund unassigned fund balance was applied for this purpose and \$138,785 was voted from unassigned fund balance as a transfer to the capital reserve funds.

**2-B Budgetary Reconciliation to GAAP Basis**

While the Town reports financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual is presented for each major governmental fund which had a budget. There are no differences between the budgetary basis of accounting for the major transfer station fund. Differences between the budgetary basis and GAAP basis of accounting for the general fund are as follows:

Revenues and other financing sources:	
Per Exhibit D-1 (budgetary basis)	\$2,908,186
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
To record miscellaneous income of the blended funds	177,980
To eliminate transfers between blended funds	(191,929)
Change in deferred tax revenue relating to 60-day revenue recognition	(52,190)
Per Exhibit C-3 (GAAP basis)	<u>\$2,842,047</u>
Expenditures and other financing uses:	
Per Exhibit D-1 (budgetary basis)	\$2,729,067
Adjustment:	
Basis differences:	
GASB Statement No. 54:	
To record expenditures of the blended funds during the year	31,048
To eliminate transfers between general and blended funds	(483,835)
Per Exhibit C-3 (GAAP basis)	<u>\$2,276,280</u>

**2-C Accounting Change**

Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*, was implemented during fiscal year 2019. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust of equivalent arrangement that meet specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to

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disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or other condition is required to be taken or met by the beneficiary to release the assets. Beginning net position for the fiduciary funds was restated to retroactively report the change in accounting principle, see Note 17.

**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 \$2,932,764 and the bank balances totaled \$3,077,806.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$1,238,800
Cash per Statement of Fiduciary Net Position (Exhibit F-1)	1,693,964
Total cash and cash equivalents	<u>\$2,932,764</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/or investments are classified as restricted for the following purposes:

Cash and cash equivalents:	
General fund:	
Library	\$ 22,498
Capital reserve funds	52,054
Total restricted cash and cash equivalents	<u>74,552</u>
Investments:	
General fund:	
Library	326,361
Capital reserve funds	1,592,872
Total restricted investments	<u>1,919,233</u>
Total restricted assets	<u>\$ 1,993,785</u>

**NOTE 5 – INVESTMENTS**

Note 1-F describe 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.

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The Town has the following recurring fair value measurements and maturities as of December 31, 2019:

	Valuation Measurement Method	Reported Balance	Exempt from Disclosure
Investments type:			
Equity mutual funds	Level 1	\$ 738,714	\$ 738,714
Fixed income mutual funds	Level 1	1,779,480	1,779,480
New Hampshire Public Deposit Investment Pool	Level 2	255,095	255,095
Total fair value		<u>\$2,773,289</u>	<u>\$ 2,773,289</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)	\$2,319,590
Investments per Statement of Fiduciary Net Position (Exhibit F-1)	453,699
Total investments	<u>\$2,773,289</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, 2019. The amount has been reduced by an allowance for an estimated uncollectible amount of \$100,000. Taxes receivable by year are as follows:

	As reported on:	
	Exhibit A	Exhibit C-1
Property:		
Levy of 2019	\$ 212,552	\$ 212,552
Unredeemed (under tax lien):		
Levy of 2018	54,761	54,761
Levy of 2017	29,461	29,461
Levies of 2016 and prior	6,733	6,733
Yield	18	18
Less: allowance for estimated uncollectible taxes	(100,000) *	-
Net taxes receivable	<u>\$ 203,525</u>	<u>\$ 303,525</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, 2019, 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, 2019 for the Town's individual major funds including applicable allowances for uncollectible accounts are as follows:

	Governmental Activities		Business-type	Total
	General	Transfer	Activities	
	Fund	Station	Water Department	
Receivables:				
Accounts	\$ 267,065	\$ -	\$ 117,856	\$ 384,921
Intergovernmental	8,248	4,408	-	12,656
Gross receivables	275,313	4,408	117,856	397,577
Less: allowance for uncollectibles	(210,383)	-	(1,000)	(211,383)
Net total receivables	<u>\$ 64,930</u>	<u>\$ 4,408</u>	<u>\$ 116,856</u>	<u>\$ 186,194</u>

**NOTE 8 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2019 is as follows:

	Balance, beginning	Additions	Deletions	Balance, ending
<b>Governmental activities:</b>				
At cost:				
Not being depreciated:				
Land	\$ 814,334	\$ -	\$ -	\$ 814,334
Construction in progress	38,000	-	(38,000)	-
Total capital assets not being depreciated	<u>852,334</u>	<u>-</u>	<u>(38,000)</u>	<u>814,334</u>
Being depreciated:				
Buildings and building improvements	2,786,698	93,215	-	2,879,913
Machinery, equipment, and vehicles	2,350,030	105,117	-	2,455,147
Infrastructure	345,759	-	-	345,759
Total capital assets being depreciated	<u>5,482,487</u>	<u>198,332</u>	<u>-</u>	<u>5,680,819</u>
Total all capital assets	<u>6,334,821</u>	<u>198,332</u>	<u>(38,000)</u>	<u>6,495,153</u>
Less accumulated depreciation:				
Buildings and building improvements	(469,431)	(66,506)	-	(535,937)
Machinery, equipment, and vehicles	(1,747,318)	(176,663)	-	(1,923,981)
Infrastructure	(130,747)	(34,031)	-	(164,778)
Total accumulated depreciation	<u>(2,347,496)</u>	<u>(277,200)</u>	<u>-</u>	<u>(2,624,696)</u>
Net book value, capital assets being depreciated	<u>3,134,991</u>	<u>(78,868)</u>	<u>-</u>	<u>3,056,123</u>
Net book value, all governmental activities capital assets	<u>\$ 3,987,325</u>	<u>\$ (78,868)</u>	<u>\$ (38,000)</u>	<u>\$ 3,870,457</u>

*(Continued)*

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Capital assets continued:

	Balance, beginning	Additions	Deletions	Balance, ending
<b>Business-type activities:</b>				
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	(21,355)	(3,638)	-	(24,993)
Infrastructure	(1,342,020)	(177,791)	-	(1,519,811)
Total accumulated depreciation	(1,363,375)	(181,429)	-	(1,544,804)
Net book value, capital assets being depreciated	3,797,688	(181,429)	-	3,616,259
Net book value, all business-type activities capital assets	\$ 3,916,204	\$ (181,429)	\$ -	\$ 3,734,775

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:

<b>Governmental activities:</b>	
General government	\$ 26,997
Public safety	108,905
Highways and streets	115,164
Sanitation	9,413
Culture and recreation	16,721
Total depreciation expense	<u>\$ 277,200</u>
<b>Business-type activities:</b>	
Water	<u>\$ 181,429</u>

**NOTE 9 – INTERFUND BALANCES AND TRANSFERS**

*Interfund Balances* - The composition of interfund balances as of December 31, 2019 is as follows:

Receivable Fund	Payable Fund	Amount
General	Transfer Station	\$ 4,408
Nonmajor	General	8,240
		<u>\$ 12,648</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.

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**Interfund Transfers** - The composition of interfund transfers for the year ended December 31, 2019 is as follows:

	Transfers In:			Total
	General Fund	Transfer Station	Water Department	
Transfers out:				
General fund	\$ -	\$ 89,222	\$ 38,100	\$ 127,322
Nonmajor fund	1,813	-	-	1,813
Total	<u>\$ 1,813</u>	<u>\$ 89,222</u>	<u>\$ 38,100</u>	<u>\$ 129,135</u>

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 \$1,684,103 at December 31, 2019 consist of the following.

	Fiduciary Funds
Taxes due to the Lafayette Regional School District	\$ 631,384
Taxes due to the Profile School District	1,052,719
Total intergovernmental payables due	<u>\$ 1,684,103</u>

**NOTE 11 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

Deferred outflows of resources of at December 31, 2019 consist of amounts related to pensions totaling \$72,828 and amounts related to OPEB totaling \$14,516. 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	\$ -	\$64,843
Property taxes collected in advance of warrants being issued	5,796	5,796
Amounts related to pensions, see Note 13	88,461	-
Amounts related to OPEB, see Note 14	468	-
Total deferred inflows of resources	<u>\$ 94,725</u>	<u>\$70,639</u>

**NOTE 12 – LONG-TERM LIABILITIES**

Changes in the Town's long-term liabilities consisted of the following for the year ended December 31, 2019:

	Balance			Balance December 31, 2019	Due Within One Year
	January 1, 2019 (as restated)	Additions	Reductions		
<b>Governmental activities:</b>					
General obligation notes payable	\$ 1,360,663	\$ -	\$ (76,809)	\$ 1,283,854	\$ 78,903
Legal settlement liability*	-	36,815	-	36,815	18,407
Compensated absences	89,560	-	(25,637)	63,923	-
Net pension liability	535,137	-	(15,916)	519,221	-
Net other postemployment benefits	207,217	31,836	(5,676)	233,377	-
Total long-term liabilities	<u>\$ 2,192,577</u>	<u>\$ 68,651</u>	<u>\$ (124,038)</u>	<u>\$ 2,137,190</u>	<u>\$ 97,310</u>
<b>Business-type activities:</b>					
General obligation note payable	<u>\$ 1,756,652</u>	<u>\$ -</u>	<u>\$ (70,458)</u>	<u>\$ 1,686,194</u>	<u>\$ 72,051</u>

\*The Town entered into a legal settlement with a utility company to settle ongoing litigation regarding the tax assessment of utility poles. The Town has determined to pay out the settlement through annual credits of property taxes through 2022.

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Long-term notes are comprised of the following:

**Governmental activities:**

	<u>Original Amount</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate %</u>	<u>Outstanding at December 31, 2019</u>	<u>Current Portion</u>
General obligation notes payable:						
Safety services building	\$ 1,700,000	2014	2034	2.84	\$ 1,270,950	\$ 75,044
Street light energy improvements	\$ 19,430	2017	2023	2.50	12,904	3,859
Total					<u>\$ 1,283,854</u>	<u>\$ 78,903</u>

**Business-type activities:**

	<u>Original Amount</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate %</u>	<u>Outstanding at December 31, 2019</u>	<u>Current Portion</u>
General obligation note payable:						
Water system improvement	\$ 2,267,000	2010	2038	2.25	<u>\$ 1,686,194</u>	<u>\$ 72,051</u>

The annual requirements to amortize all general obligation notes outstanding as of December 31, 2019, including interest payments, are as follows:

**Governmental activities:**

<u>Fiscal Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	84,038	26,673	110,711
2025-2029	457,982	95,576	553,558
2030-2034	415,332	26,989	442,321
Totals	<u>\$ 1,283,854</u>	<u>\$ 279,032</u>	<u>\$ 1,562,886</u>

**Business-type activities:**

<u>Fiscal Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	78,797	30,791	109,588
2025-2029	421,550	126,390	547,940
2030-2034	471,448	76,492	547,940
2035-2039	416,264	21,319	437,583
Totals	<u>\$ 1,686,194</u>	<u>\$ 395,209</u>	<u>\$ 2,081,403</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.

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**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 a 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 within 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  $\frac{1}{4}$  of 1% or age 60.

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

**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. Group I (employee and teacher) members are required to contribute 7% of earnable compensation and Group II (police and fire) members contribute 11.55% and 11.80% respectively. For fiscal year 2019, the Town contributed 25.33% for police, 27.79% for fire and 11.08% for other employees through June 30, 2019. From July 1, 2019 through December 31, 2019 the Town contributed 24.77% for police, 26.43% for fire and 10.88% for other employees. The contribution requirement for the fiscal year 2019 was \$48,601, which was paid in full.

**Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions** – At December 31, 2019 the Town reported a liability of \$519,221 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the Town's proportion was 0.01% which was an decrease of 0.00003% from its proportion measured as of June 30, 2018.

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For the year ended December 31, 2019, the Town recognized pension expense of \$58,959. At December 31, 2019 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	\$ 26,231	\$ 73,055
Changes in assumptions	18,629	-
Net difference between projected and actual investment earnings on pension plan investments	-	4,241
Differences between expected and actual experience	2,871	11,165
Contributions subsequent to the measurement date	25,097	-
Total	\$ 72,828	\$ 88,461

The \$25,097 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, 2020. 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,	
2020	\$ 5,135
2021	(23,393)
2022	(21,166)
2023	(1,306)
Thereafter	-
Totals	\$ (40,730)

**Actuarial Assumptions** – The collective total pension liability was based on the following assumptions:

Inflation:	2.5%
Salary increases:	5.6% average, including inflation
Wage inflation	3.25% (3.00% for teachers)
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, 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, 2019 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 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.

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Following is a table presenting target allocations and geometric real rates of return for each asset class:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return 2019
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	9.00%	1.12%
Global Multi-Sector Fixed Income	10.00%	2.46%
Absolute Return Fixed Income	6.00%	1.50%
Total fixed income	<u>25.00%</u>	
Private equity	10.00%	7.90%
Private debt	5.00%	4.86%
Total alternative investments	<u>15.00%</u>	
Real estate	10.00%	3.00%
Total	<u>100.00%</u>	

**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, 2019	\$ 695,258	\$ 519,221	\$ 373,727

**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.

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**NOTE 14 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**14-A New Hampshire Retirement System (NHRS)**

**Plan Description** – The New Hampshire Retirement System (NHRS or the System) is a public employee retirement system which administers a cost-sharing multiple-employer other postemployment benefit (OPEB) plan. For additional system information, please refer to the 2019 Comprehensive Annual Financial Report, which can be found on the system’s website at [www.nhrs.org](http://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 2019 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 2019, the Town contributed 4.10% for police and fire, and 0.30% for other employees through June 30, 2019. From July 1, 2019 through December 31, 2019 the Town contributed 3.66% for police and fire, and 0.29% for other employees. The contribution requirement for the fiscal year 2019 was \$7,511, which was paid in full.

**OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** – At December 31, 2019, the Town reported a liability of \$73,021 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, 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, 2019, the Town’s proportion was 0.02% which was a decrease of 0.001% from its proportion measured as of June 30, 2018.

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For the year ended December 31, 2019, the Town recognized OPEB expense of \$5,594. At December 31, 2019, 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	\$ -	\$ 259
Net difference between projected and actual investment earnings on OPEB plan investments	-	82
Differences between expected and actual experience	-	127
Contributions subsequent to the measurement date	3,708	-
Total	\$ 3,708	\$ 468

The \$3,708 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, 2020. 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,	
2020	\$(440)
2021	(54)
2022	6
2023	20
Thereafter	-
Totals	\$(468)

**Actuarial Assumptions** – The collective total OPEB liability was based on the following actuarial assumptions:

Inflation:	2.5 %
Wage inflation:	3.25 % (3.00%) for teachers
Salary increases:	5.6 % average, including inflation
Investment rate of return:	7.25 % net of OPEB plan investment expense, including inflation for determining solvency contributions

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, 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.

**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.

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Following is a table presenting target allocations and geometric real rates of return for each asset class:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return 2019
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	9.00%	1.12%
Global Multi-Sector Fixed Income	10.00%	2.46%
Absolute Return Fixed Income	6.00%	1.50%
Total fixed income	25.00%	
Private equity	10.00%	7.90%
Private debt	5.00%	4.86%
Total alternative investments	15.00%	
Real estate	10.00%	3.00%
Total	100.00%	

**Discount Rate** – The discount rate used to measure the total OPEB liability as of June 30, 2019 was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made under the current statutes RSA 100-A:16 and 100-A:53. 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, 2019	\$ 79,202	\$ 73,021	\$ 67,649

**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.

**14-B Town of Franconia Retiree Health Benefit Program**

**Plan Description** – GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires governments to account for other postemployment benefits (OPEB) on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially determined expense on the Statement of Activities when a future retiree earns their postemployment benefits, rather than when they use their postemployment benefit. The postemployment benefit liability is recognized on the Statement of Net Position over time.

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**Benefits Provided** – The Town provides postemployment healthcare benefits for certain eligible retirees. The Town provides medical benefits to its eligible retirees. The benefits are provided through the New Hampshire Health Trust.

**Employees Covered by Benefit Terms** – At January 1, 2018 13 active employees were covered by the benefit terms.

**Total OPEB Liability** – The Town’s total OPEB liability of \$160,356 was measured as of January 1, 2018, and was determined by an actuarial valuation of that date.

**Actuarial Assumptions and Other Inputs** – The total OPEB liability of \$160,356 in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate:	4.10%
Healthcare Cost Trend Rates:	
Current Year Trend	10.50%
Second Year Trend	9.50%
Decrement	0.50%
Ultimate Trend	5.00%
Year Ultimate Trend is Reached	2028
Salary Increases:	2.00%

The discount rate was based on the index provided by *Bond Buyer 20-Bond General Obligation Index* based on the 20-year AA municipal bond rate as of December 31, 2018.

Mortality rates were based on the SOA RP-2014 Total Dataset Mortality with Scale MP-2018.

**Changes in the Total OPEB Liability**

	December 31,	
	2018	2019
OPEB liability beginning of year	\$ 111,106	\$ 128,520
Changes for the year:		
Service cost	13,522	16,326
Interest	4,542	3,217
Assumption changes	-	12,970
Benefit payments	(650)	(677)
OPEB liability end of year	<u>\$ 128,520</u>	<u>\$ 160,356</u>

**Sensitivity of the Town’s OPEB Liability to Changes in the Discount Rate** – The January 1, 2018 actuarial valuation was prepared using a discount rate of 4.10%. If the discount rate were 1% higher than what was used the OPEB liability would decrease to \$150,936 or by 5.87%. If the discount rate were 1% lower than what was used the OPEB liability would increase to \$170,408 or by 6.27%.

	Discount Rate		
	1% Decrease	Baseline 4.10%	1% Increase
Total OPEB Liability	<u>\$ 170,408</u>	<u>\$ 160,356</u>	<u>\$ 150,936</u>

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**Sensitivity of the Town's OPEB Liability to Changes in the Healthcare Cost Trend Rates** – The January 1, 2018 actuarial valuation was prepared using an initial trend rate of 10.50%. If the trend rate were 1% higher than what was used the OPEB liability would increase to \$176,946 or by 10.35%. If the trend rate were 1% lower than what was used the OPEB liability would decrease to \$145,834 or by 9.06%.

	<u>Healthcare Cost Trend Rates</u>		
	<u>1% Decrease</u>	<u>Baseline 10.50%</u>	<u>1% Increase</u>
Total OPEB Liability	<u>\$ 145,834</u>	<u>\$ 160,356</u>	<u>\$ 176,946</u>

**OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB** – For the year ended December 31, 2019, the Town recognized OPEB expense of \$21,705. At December 31, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	<u>\$ 10,808</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year Ending December 31,</u>	
2020	\$ 2,162
2021	2,162
2022	2,162
2023	2,162
2024	2,160
<b>Totals</b>	<u><b>\$ 10,808</b></u>

**NOTE 15 – GOVERNMENTAL ACTIVITIES NET POSITION**

Governmental activities net position reported on the Statement of Net Position at December 31, 2019 include the following:

	<u>Government-Wide Financial Statements</u>			<u>Fiduciary Funds</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Net investment in capital assets:				
Net book value, all capital assets	\$ 3,870,457	\$ 3,734,775	\$ 7,605,232	\$ -
Less:				
General obligation notes payable	<u>(1,283,854)</u>	<u>(1,686,194)</u>	<u>(2,970,048)</u>	-
Total net investment in capital assets	<u>2,586,603</u>	<u>2,048,581</u>	<u>4,635,184</u>	-
Restricted net position:				
Perpetual care - nonexpendable	119,298	-	119,298	-
Perpetual care - expendable	26,590	-	26,590	-
Library	348,859	-	348,859	-
Individuals, organizations and other governments	-	-	-	463,560
Water	-	295,268	295,268	-
Total restricted net position	<u>494,747</u>	<u>295,268</u>	<u>790,015</u>	<u>463,560</u>
Unrestricted	2,395,874	-	2,395,874	-
Total net position	<u>\$ 5,477,224</u>	<u>\$ 2,343,849</u>	<u>\$ 7,821,073</u>	<u>\$ 463,560</u>

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**NOTE 16 – GOVERNMENTAL FUND BALANCES**

Governmental fund balances reported on the fund financial statements at December 31, 2019 include the following:

	General Fund	Nonmajor Funds	Total Governmental Funds
<b>Nonspendable:</b>			
Tax deceded property	\$ 112,372	\$ -	\$ 112,372
Permanent fund - principal balance	-	119,298	119,298
Total nonspendable fund balance	<u>112,372</u>	<u>119,298</u>	<u>231,670</u>
<b>Restricted:</b>			
Library	348,859	-	348,859
MacLachlin memorial	3,499	-	3,499
Permanent - income balance	-	26,590	26,590
Total restricted fund balance	<u>352,358</u>	<u>26,590</u>	<u>378,948</u>
<b>Committed:</b>			
Expendable trusts	1,636,228	-	1,636,228
Conservation	-	171,928	171,928
Total committed fund balance	<u>1,636,228</u>	<u>171,928</u>	<u>1,808,156</u>
<b>Unassigned</b>	<u>1,369,702</u>	<u>-</u>	<u>1,369,702</u>
Total governmental fund balances	<u>\$ 3,470,660</u>	<u>\$ 317,816</u>	<u>\$ 3,788,476</u>

**NOTE 17 – PRIOR PERIOD ADJUSTMENTS**

Net position at January 1, 2019 was restated to give retroactive effect to the following prior period adjustments:

	Government-wide Statements	Fiduciary Funds
To restate for the cumulative changes related to implementation of GASB Statement No. 84	\$ -	\$ 243,511
To record beginning balances for local OPEB liability	(128,520)	-
Net position, as previously reported	5,078,197	-
Net position, as restated	<u>\$ 4,949,677</u>	<u>\$ 243,511</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 2019, the Town was a member of the New Hampshire Public Risk Management Exchange (Primex<sup>3</sup>) Workers' Compensation and Property/Liability Programs.

The New Hampshire Public Risk Management Exchange (Primex<sup>3</sup>) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from January 1, 2019 to December 31, 2019 by Primex<sup>3</sup>, 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 Primex<sup>3</sup> 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. In 2019 the Town paid \$42,533 and \$27,069 respectively, to Primex for property, liability and worker's compensation. At this time, Primex<sup>3</sup> 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.

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**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.

**NOTE 20 – TAX ABATEMENTS**

Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*, 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, 2019.

**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 June 16, 2020, the date the December 31, 2019 financial statements were available to be issued, and the following event occurred that required recognition or disclosure.

At the March 2020 annual meeting the voters of the Town approved two warrant articles for a total of \$124,235 to fund various trust funds with December 31, 2019 unassigned fund balance.

On March 11, 2020, the World Health Organization declared, the outbreak of a coronavirus (COVID-19), a pandemic. In response to the pandemic, the State of New Hampshire's Governor issued an order declaring a state of emergency on March 13, 2020. It is anticipated that the impact of the pandemic will continue for some time. As a result, economic uncertainties have arisen which could have a financial impact on the Town though such potential impact is unknown at this time.

***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, 2019*

	December 31,					
	2014	2015	2016	2017	2018	2019
Town's:						
Proportion of the net pension liability	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Proportionate share of the net pension liability	\$449,501	\$ 462,649	\$ 645,188	\$ 659,320	\$535,137	\$ 519,221
Covered payroll	\$181,550	\$ 183,472	\$ 191,549	\$ 216,893	\$186,349	\$ 184,513
Proportionate share of the net pension liability as a percentage of its covered payroll	247.59%	252.16%	336.83%	303.98%	287.17%	281.40%
Plan fiduciary net position as a percentage of the total pension liability	66.32%	65.47%	58.30%	62.66%	64.73%	65.59%

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, 2019*

	December 31,					
	2014	2015	2016	2017	2018	2019
Contractually required contribution	\$ 46,018	\$ 48,280	\$ 43,446	\$ 49,113	\$ 46,972	\$ 46,960
Contributions in relation to the contractually contractually required contributions	46,018	48,280	43,446	49,113	46,972	46,960
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered payroll	<u>\$ 181,550</u>	<u>\$ 183,472</u>	<u>\$ 191,549</u>	<u>\$ 216,893</u>	<u>\$ 186,349</u>	<u>\$ 184,513</u>
Contributions as a percentage of covered payroll	25.35%	26.31%	22.68%	22.64%	25.21%	25.45%

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, 2019**

***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, 2019. 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 2019:**

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	3.13% 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 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.

**Other Information:**

Notes Contribution rates for fiscal year 2019 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 Benefits Liability*  
*New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan*  
*For the Fiscal Year Ended December 31, 2019*

	December 31,		
	2017	2018	2019
Town's proportion of the net OPEB liability	0.01%	0.02%	0.02%
Town's proportionate share of the net OPEB liability (asset)	\$ 64,546	\$ 78,697	\$ 73,021
Town's covered payroll	\$ 216,893	\$186,349	\$184,513
Town's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	29.76%	42.23%	39.57%
Plan fiduciary net position as a percentage of the total OPEB liability	7.91%	7.53%	7.75%

The Notes 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, 2019*

	December 31,		
	2017	2018	2019
Contractually required contribution	\$ 8,367	\$ 7,603	\$ 7,601
Contributions in relation to the contractually required contribution	8,367	7,603	7,601
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Town's covered payroll	\$ 216,893	\$ 186,349	\$ 184,513
Contributions as a percentage of covered payroll	3.86%	4.08%	4.12%

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

**EXHIBIT K**  
**TOWN OF FRANCONIA, NEW HAMPSHIRE**  
*Schedule of Changes in the Town's Total Other Postemployment Benefits Liability and Related Ratios*  
**Retiree Health Benefit Program**  
**For the Fiscal Year Ended December 31, 2019**

	December 31,	
	2018	2019
OPEB liability, beginning of year	\$ 111,106	\$ 128,520
Changes for the year:		
Service cost	13,522	16,326
Interest	4,542	3,217
Assumption changes	-	12,970
Benefit payments	(650)	(677)
OPEB liability, end of year	<u>\$ 128,520</u>	<u>\$ 160,356</u>
Covered payroll	<u>\$ 858,013</u>	<u>\$ 679,981</u>
Total OPEB liability as a percentage of covered payroll	14.98%	23.58%

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

**TOWN OF FRANCONIA, NEW HAMPSHIRE**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –**  
**OTHER POSTEMPLOYMENT BENEFIT LIABILITY**  
**FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2019**

***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, 2019. 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	3.13% 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.

***Schedule of Changes in Town’s Total Other Postemployment Benefits Liability and Related Ratios***

As required by GASB Statement No. 75, Exhibit K represents the actuarial determined costs associated with the Town’s other postemployment benefits at December 31, 2019. The schedule is 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.

***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, 2019*

	Estimated	Actual	Variance Positive (Negative)
<b>Taxes:</b>			
Property	\$ 1,811,033	\$ 1,788,016	\$ (23,017)
Land use change	15	8,240	8,225
Yield	9,471	2,236	(7,235)
Payment in lieu of taxes	72,328	74,132	1,804
Interest and penalties on taxes	25,000	26,089	1,089
Total from taxes	<u>1,917,847</u>	<u>1,898,713</u>	<u>(19,134)</u>
<b>Licenses, permits, and fees:</b>			
Motor vehicle permit fees	280,000	288,552	8,552
Building permits	9,000	12,842	3,842
Other	1,500	6,669	5,169
Total from licenses, permits, and fees	<u>290,500</u>	<u>308,063</u>	<u>17,563</u>
<b>Intergovernmental:</b>			
<b>State:</b>			
Shared revenues	12,401	12,401	-
Meals and rooms distribution	57,420	57,420	-
Highway block grant	55,269	95,091	39,822
Other	-	6,000	6,000
From other governments	85,310	48,820	(36,490)
Total from intergovernmental	<u>210,400</u>	<u>219,732</u>	<u>9,332</u>
<b>Charges for services:</b>			
Income from departments	80,500	197,216	116,716
<b>Miscellaneous:</b>			
Sale of municipal property	6,000	6,027	27
Interest on investments	2,000	3,581	1,581
Other	37,800	81,112	43,312
Total from miscellaneous	<u>45,800</u>	<u>90,720</u>	<u>44,920</u>
<b>Other financing sources:</b>			
Transfers in	203,878	193,742	(10,136)
Total revenues and other financing sources	2,748,925	<u>\$ 2,908,186</u>	<u>\$ 159,261</u>
Amounts voted from fund balance	138,785		
Total revenues, other financing sources, and use of fund balance	<u>\$ 2,887,710</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, 2019*

	Appropriations	Expenditures	Variance Positive (Negative)
Current:			
General government:			
Executive	\$ 171,554	\$ 177,473	\$ (5,919)
Election and registration	37,550	34,953	2,597
Financial administration	14,364	14,097	267
Revaluation of property	20,922	19,178	1,744
Legal	12,000	20,788	(8,788)
Personnel administration	242,031	241,978	53
Planning and zoning	7,827	6,584	1,243
General government buildings	152,340	137,473	14,867
Cemeteries	17,629	14,445	3,184
Insurance, not otherwise allocated	39,380	39,380	-
Advertising and regional associations	9,000	9,000	-
Total general government	<u>724,597</u>	<u>715,349</u>	<u>9,248</u>
Public safety:			
Police	260,749	251,116	9,633
Ambulance	84,950	73,453	11,497
Fire	97,890	74,140	23,750
Building inspection	4,000	8,259	(4,259)
Emergency management	4,000	3,234	766
Other	45,500	42,918	2,582
Total public safety	<u>497,089</u>	<u>453,120</u>	<u>43,969</u>
Highways and streets:			
Highways and streets	318,548	277,165	41,383
Street lighting	14,000	13,243	757
Total highways and streets	<u>332,548</u>	<u>290,408</u>	<u>42,140</u>
Health:			
Health agencies	22,680	22,480	200
Welfare:			
Administration and direct assistance	8,140	3,259	4,881
Culture and recreation:			
Parks and recreation	217,822	209,820	8,002
Library	84,500	84,500	-
Patriotic purposes	1,000	1,100	(100)
Other	2,139	2,609	(470)
Total culture and recreation	<u>305,461</u>	<u>298,029</u>	<u>7,432</u>
Conservation	1,000	250	750
Debt service:			
Principal of long-term debt	88,923	76,809	12,114
Interest on long-term debt	64,027	37,667	26,360
Interest on tax anticipation notes	3,500	374	3,126
Total debt service	<u>156,450</u>	<u>114,850</u>	<u>41,600</u>
Capital outlay	238,958	220,165	18,793
Other financing uses:			
Transfers out	600,787	611,157	(10,370)
Total appropriations, expenditures, and other financing uses	<u>\$ 2,887,710</u>	<u>\$ 2,729,067</u>	<u>\$ 158,643</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, 2019*

Unassigned fund balance, beginning (Non-GAAP Budgetary Basis)		\$ 1,149,027
Changes:		
Amounts voted from fund balance		(138,785)
2019 Budget summary:		
Revenue surplus (Schedule 1)	\$ 159,261	
Unexpended balance of appropriations (Schedule 2)	158,643	
2019 Budget surplus		317,904
Decrease in nonspendable fund balance		6,473
Increase in restricted fund balance		(74)
Unassigned fund balance, ending (Non-GAAP Budgetary Basis)		<u>1,334,545</u>
<b><i>Reconciliation on Non-GAAP Budgetary Basis to GAAP Basis</i></b>		
To record deferred property taxes not collected within 60 days of the fiscal year-end, not recognized on a budgetary basis		(64,843)
Elimination of the allowance for uncollectible taxes		<u>100,000</u>
Unassigned fund balance, ending, GAAP basis (Exhibit C-1)		<u><u>\$ 1,369,702</u></u>

**SCHEDULE 4**  
**TOWN OF FRANCONIA, NEW HAMPSHIRE**  
*Nonmajor Governmental Funds*  
**Combining Balance Sheet**  
**December 31, 2019**

	Special		Total
	Revenue Fund		
	Conservation Commission	Permanent Fund	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 648	\$ 626	\$ 1,274
Investments	163,040	145,262	308,302
Interfund receivable	8,240	-	8,240
Total assets	<u>\$ 171,928</u>	<u>\$ 145,888</u>	<u>\$ 317,816</u>
<b>FUND BALANCES</b>			
Nonspendable	\$ -	\$ 119,298	\$ 119,298
Restricted	-	26,590	26,590
Committed	171,928	-	171,928
Total fund balances	<u>\$ 171,928</u>	<u>\$ 145,888</u>	<u>\$ 317,816</u>

**SCHEDULE 6**  
**TOWN OF FRANCONIA, NEW HAMPSHIRE**  
*Custodial Funds*  
**Combining Schedule of Fiduciary Net Position**  
**December 31, 2019**

	Custodial Funds		Total
	Taxes	School Trust Funds	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,684,103	\$ 9,106	\$ 1,693,209
Investments	-	278,641	278,641
Total assets	<u>\$ 1,684,103</u>	<u>\$ 287,747</u>	<u>\$ 1,971,850</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>Liabilities:</b>			
Intergovernmental payables:			
School	\$ 1,684,103	-	\$ 1,684,103
<b>Net Position:</b>			
Restricted	-	287,747	287,747
Total liabilities and net position	<u>\$ 1,684,103</u>	<u>\$ 287,747</u>	<u>\$ 1,971,850</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, 2019**

	Special Revenue Fund		Total
	Conservation Commission	Permanent Fund	
<b>Revenues:</b>			
Taxes	\$ 8,240	\$ -	\$ 8,240
Miscellaneous	3,405	17,333	20,738
Total revenues	<u>11,645</u>	<u>17,333</u>	<u>28,978</u>
<b>Expenditures:</b>			
Current:			
Conservation	60	-	60
Excess of revenues over expenditures	<u>11,585</u>	<u>17,333</u>	<u>28,918</u>
<b>Other financing uses:</b>			
Transfers out	-	(1,813)	(1,813)
Net change in fund balances	11,585	15,520	27,105
Fund balances, beginning	160,343	130,368	290,711
Fund balances, ending	<u>\$ 171,928</u>	<u>\$ 145,888</u>	<u>\$ 317,816</u>

**SCHEDULE 7**  
**TOWN OF FRANCONIA, NEW HAMPSHIRE**  
*Custodial Funds*  
**Combining Schedule of Changes in Fiduciary Net Position**  
**For the Fiscal Year Ended December 31, 2019**

	Custodial Funds		
	Taxes	School Trust Funds	Total
<b>Additions:</b>			
Contributions	\$ -	\$ 25,000	\$ 25,000
Investment earnings	-	5,081	5,081
Change in fair market value	-	14,155	14,155
Tax collections for other governments	3,722,929	-	3,722,929
Total additions	<u>3,722,929</u>	<u>44,236</u>	<u>3,767,165</u>
<b>Deductions:</b>			
Payments of taxes to other governments	<u>3,722,929</u>	-	<u>3,722,929</u>
Change in net position	-	44,236	44,236
Net position, beginning, as restated (see Note 17)	-	243,511	243,511
Net position, ending	<u>\$ -</u>	<u>\$ 287,747</u>	<u>\$ 287,747</u>



## PLODZIK & SANDERSON

*Professional Association/Accountants & Auditors*

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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, 2019, 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 June 16, 2020.

#### ***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 a material weakness 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:

#### ***2019-01 Bank Reconciliations***

During our testing of the Town's bank reconciliations, we noted that while the 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 the 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. The Town has also contracted with a consulting firm to assist with this process going forward.

*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:

**2019-02 Adjusting Journal Entries**

During our review of the Town's adjusting journal entries, we noted that although there has been review of the journal entries made it has not been done in a timely manner. Entries posted from August 2019 through December 2019 were not approved at the time of the audit. 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 in a timely manner or another appropriate individual other than the individual responsible for recording the journal entries in the general ledger.

**Management's Response:** Adjusting journal entries are now being reported and reviewed by the Selectmen in a more timely manner. The Town has also contracted with a consulting firm to assist with this process going forward.

**2019-03 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 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.

**2019-04 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.

**2019-05 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 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.

*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*

**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 2019. 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.

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 June 16, 2020.

*Town of Franconia's Responses to Findings*

The Town of Franconia's responses 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.

June 16, 2020

*Sheryl A. Pratt, CPA*

PLODZIK & SANDERSON  
Professional Association