

**TOWN OF FRANCONIA,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2017**

TOWN OF FRANCONIA, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
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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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major governmental fund, major proprietary fund, and aggregate remaining fund information of the Town of Franconia as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town of Franconia'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.

Summary of Opinions

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

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

Basis for Adverse Opinion on Governmental Activities

As discussed in Note 15 to the financial statements, management has not recorded the long-term costs of retirement health care costs and obligations for other postemployment benefits in the governmental activities. Accounting principles generally accepted in the United States of America require that those costs be recorded, which would increase the liabilities, decrease the net position, and increase expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities is not readily determinable.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Governmental Activities” paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of the Town of Franconia as of December 31, 2017, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major governmental and proprietary funds, and aggregate remaining fund information of the Town of Franconia, as of December 31, 2017, the respective changes in financial position, the respective budgetary comparisons for the general and transfer station funds and, cash flow for the proprietary fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Schedule of the Town's Proportionate Share of Net Pension Liability (page 36), and the Schedule of Town Contributions (page 37) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2018, on our consideration of the Town of Franconia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

Handwritten signature of Sheryl A. Platt, CPA in black ink.

September 10, 2018

PLODZIK & SANDERSON
Professional Association

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF FRANCONIA, NEW HAMPSHIRE
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,359,452	\$ 76,201	\$ 2,435,653
Investments	1,762,184	7,893	1,770,077
Taxes receivables (net)	87,576	-	87,576
Account receivables (net)	54,411	77,675	132,086
Due from other governments	57,269	-	57,269
Internal balances	(128)	128	-
Tax dedeed property, subject to resale	148,070	-	148,070
Capital assets:			
Land and construction in progress	814,334	118,516	932,850
Other capital assets, net of depreciation	3,316,838	3,980,447	7,297,285
Total assets	<u>8,600,006</u>	<u>4,260,860</u>	<u>12,860,866</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	<u>164,138</u>	<u>-</u>	<u>164,138</u>
LIABILITIES			
Cash overdraft			
Accrued salaries and benefits	10,824	-	10,824
Accrued interest payable	9,083	1,182	10,265
Due to other governments	1,260,035	-	1,260,035
Escrow and performance deposits	1,319	-	1,319
Long-term liabilities:			
Due within one year	78,380	68,898	147,278
Due in more than one year	2,133,359	1,756,652	3,890,011
Total liabilities	<u>3,493,000</u>	<u>1,826,732</u>	<u>5,319,732</u>
DEFERRED INFLOWS OF RESOURCES			
Highway block grant	45,705	-	45,705
Unavailable revenue - property taxes	229,328	-	229,328
Related to pensions	22,362	-	22,362
Total deferred inflows of resources	<u>297,395</u>	<u>-</u>	<u>297,395</u>
NET POSITION			
Net investment in capital assets	2,627,379	2,273,413	4,900,792
Restricted	464,093	160,715	624,808
Unrestricted	1,882,277	-	1,882,277
Total net position	<u>\$ 4,973,749</u>	<u>\$ 2,434,128</u>	<u>\$ 7,407,877</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, 2017

	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:						
General government	\$ 546,581	\$ 8,512	\$ 4,148	\$ (533,921)	\$ -	\$ (533,921)
Public safety	825,309	123,898	-	(701,411)	-	(701,411)
Highways and streets	579,446	843	50,876	(527,727)	-	(527,727)
Sanitation	295,267	233,485	-	(61,782)	-	(61,782)
Health	16,262	-	-	(16,262)	-	(16,262)
Welfare	9,542	-	-	(9,542)	-	(9,542)
Culture and recreation	240,278	68,165	-	(172,113)	-	(172,113)
Conservation	562	-	-	(562)	-	(562)
Interest on long-term debt	46,626	-	-	(46,626)	-	(46,626)
Total governmental activities	<u>2,559,873</u>	<u>434,903</u>	<u>55,024</u>	<u>(2,069,946)</u>	<u>-</u>	<u>(2,069,946)</u>
Business-type activities:						
Water	491,919	278,764	-	-	(213,155)	(213,155)
Total	<u>\$ 3,051,792</u>	<u>\$ 713,667</u>	<u>\$ 55,024</u>	<u>(2,069,946)</u>	<u>(213,155)</u>	<u>(2,283,101)</u>
General revenues:						
Taxes:						
Property				1,809,231	-	1,809,231
Other				193,217	-	193,217
Motor vehicle permit fees				280,451	-	280,451
Licenses and other fees				15,728	-	15,728
Grants and contributions not restricted to specific programs				57,578	-	57,578
Unrestricted investment earnings				48,599	-	48,599
Miscellaneous				140,601	448	141,049
Transfers				(38,100)	38,100	-
Total general revenues				<u>2,507,305</u>	<u>38,548</u>	<u>2,545,853</u>
Change in net position				437,359	(174,607)	262,752
Net position, beginning				4,536,390	2,608,735	7,145,125
Net position, ending				<u>\$ 4,973,749</u>	<u>\$ 2,434,128</u>	<u>\$ 7,407,877</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, 2017

	General	Transfer Station	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,240,101	\$ -	\$ 75,324	\$ 2,315,425
Investments	6,405	141,088	261,887	409,380
Receivables, net of allowance for uncollectible:				
Taxes	262,576	-	-	262,576
Accounts	54,411	-	-	54,411
Intergovernmental receivable	11,544	45,725	-	57,269
Interfund receivable	91,223	-	21,535	112,758
Tax deeded property, subject to resale	148,070	-	-	148,070
Restricted assets:				
Cash and cash equivalents	44,027	-	-	44,027
Investments	1,352,804	-	-	1,352,804
Total assets	<u>\$ 4,211,161</u>	<u>\$ 186,813</u>	<u>\$ 358,746</u>	<u>\$ 4,756,720</u>
LIABILITIES				
Accrued salaries and benefits	\$ 10,824	\$ -	\$ -	\$ 10,824
Intergovernmental payable	1,260,035	-	-	1,260,035
Interfund payable	21,663	91,223	-	112,886
Escrow and performance deposits	1,319	-	-	1,319
Total liabilities	<u>1,293,841</u>	<u>91,223</u>	<u>-</u>	<u>1,385,064</u>
DEFERRED INFLOWS OF RESOURCES				
Highway block grant	45,705	-	-	45,705
Unavailable revenue - Property taxes	293,288	-	-	293,288
Total deferred inflows of resources	<u>338,993</u>	<u>-</u>	<u>-</u>	<u>338,993</u>
FUND BALANCES				
Nonspendable	148,070	-	114,947	263,017
Restricted	333,122	-	89,620	422,742
Committed	1,065,548	95,590	154,179	1,315,317
Unassigned	1,031,587	-	-	1,031,587
Total fund balances	<u>2,578,327</u>	<u>95,590</u>	<u>358,746</u>	<u>3,032,663</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,211,161</u>	<u>\$ 186,813</u>	<u>\$ 358,746</u>	<u>\$ 4,756,720</u>

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

EXHIBIT C-2
TOWN OF FRANCONIA, NEW HAMPSHIRE
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
December 31, 2017

Amounts reported for governmental activities in the Statement of Net Position are different because:		
Total fund balances of governmental funds (Exhibit C-1)		\$ 3,032,663
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.		
Cost	\$ 6,243,662	
Less accumulated depreciation	<u>(2,112,490)</u>	
		4,131,172
Certain items are not current financial resources in the governmental funds, but instead are reported in the Statement of Net Position.		
Deferred outflows of resources related to pensions	\$ 164,138	
Deferred inflows of resources related to pensions	<u>(22,362)</u>	
		141,776
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (112,758)	
Payables	<u>112,758</u>	
		-
Long-term revenue (taxes) is not available to pay current-period expenditures, and therefore, is deferred in the governmental funds.		63,960
Allowance for uncollectable property taxes that is recognized on a full accrual basis, but not on the modified accrual basis.		(175,000)
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(9,083)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Notes	\$ 1,503,793	
Compensated absences	48,626	
Net pension liability	<u>659,320</u>	
		<u>(2,211,739)</u>
Net position of governmental activities (Exhibit A)		<u><u>\$ 4,973,749</u></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, 2017

	General	Transfer Station	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 1,925,372	\$ -	\$ 21,500	\$ 1,946,872
Licenses and permits	296,162	-	-	296,162
Intergovernmental	142,338	91,450	-	233,788
Charges for services	174,200	139,735	-	313,935
Miscellaneous	176,802	1,299	10,898	188,999
Total revenues	<u>2,714,874</u>	<u>232,484</u>	<u>32,398</u>	<u>2,979,756</u>
EXPENDITURES				
Current:				
General government	546,412	-	-	546,412
Public safety	660,794	-	-	660,794
Highways and streets	470,861	-	-	470,861
Sanitation	-	284,875	-	284,875
Health	16,262	-	-	16,262
Welfare	9,542	-	-	9,542
Culture and recreation	239,812	-	-	239,812
Conservation	532	-	30	562
Debt service:				
Principal	67,116	-	-	67,116
Interest	47,036	-	-	47,036
Total expenditures	<u>2,058,367</u>	<u>284,875</u>	<u>30</u>	<u>2,343,272</u>
Excess (deficiency) of revenues over (under) expenditures	<u>656,507</u>	<u>(52,391)</u>	<u>32,368</u>	<u>636,484</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	999	-	-	999
Transfers out	(38,100)	-	(999)	(39,099)
Debt proceeds	19,430	-	-	19,430
Total other financing sources (uses)	<u>(17,671)</u>	<u>-</u>	<u>(999)</u>	<u>(18,670)</u>
Net change in fund balances	638,836	(52,391)	31,369	617,814
Fund balances, beginning	1,939,491	147,981	327,377	2,414,849
Fund balances, ending	<u>\$ 2,578,327</u>	<u>\$ 95,590</u>	<u>\$ 358,746</u>	<u>\$ 3,032,663</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 of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2017

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

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 617,814
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capitalized capital outlay in the current period.		
Capitalized capital outlay	\$ 35,519	
Depreciation expense	<u>(278,749)</u>	(243,230)
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	\$ (999)	
Transfers out	<u>999</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	\$ (69,424)	
Change in allowance for uncollectible taxes	<u>125,000</u>	55,576
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Proceeds of debt	\$ (19,430)	
Repayment of note principal	<u>67,116</u>	47,686
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	\$ 410	
Decrease in compensated absences payable	8,048	
Net increase in net pension liability and deferred outflows and inflows related to pensions	<u>(48,945)</u>	(40,487)
Changes in net position of governmental activities (Exhibit B)		<u><u>\$ 437,359</u></u>

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

EXHIBIT D-1
TOWN OF FRANCONIA, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,796,033	\$ 1,796,033	\$ 1,980,948	\$ 184,915
Licenses and permits	240,500	240,500	296,162	55,662
Intergovernmental	147,528	147,528	142,338	(5,190)
Charges for services	79,500	79,500	173,398	93,898
Miscellaneous	30,420	30,420	81,946	51,526
Total revenues	<u>2,293,981</u>	<u>2,293,981</u>	<u>2,674,792</u>	<u>380,811</u>
EXPENDITURES				
Current:				
General government	420,162	559,377	546,412	12,965
Public safety	640,003	640,003	660,794	(20,791)
Highways and streets	463,388	547,888	470,861	77,027
Health	17,462	17,462	16,262	1,200
Welfare	9,700	9,700	9,542	158
Culture and recreation	118,571	131,759	127,757	4,002
Conservation	1,000	1,000	532	468
Debt service:				
Principal	88,560	88,560	67,116	21,444
Interest	65,052	65,052	47,036	18,016
Total expenditures	<u>1,823,898</u>	<u>2,060,801</u>	<u>1,946,312</u>	<u>114,489</u>
Excess of revenues over expenditures	<u>470,083</u>	<u>233,180</u>	<u>728,480</u>	<u>495,300</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	236,903	601,889	364,986
Transfers out	(930,162)	(930,162)	(869,190)	60,972
Debt proceeds	40,000	40,000	19,430	(20,570)
Total other financing sources (uses)	<u>(890,162)</u>	<u>(653,259)</u>	<u>(247,871)</u>	<u>405,388</u>
Net change in fund balances	<u>\$ (420,079)</u>	<u>\$ (420,079)</u>	480,609	<u>\$ 900,688</u>
Increase in nonspendable fund balance			(54,469)	
Increase in restricted fund balance			(31)	
Unassigned fund balance, beginning			494,438	
Unassigned fund balance, ending			<u>\$ 920,547</u>	

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

EXHIBIT D-2
TOWN OF FRANCONIA, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (GAAP Budgetary Basis)
Transfer Station Fund
For the Fiscal Year Ended December 31, 2017

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Intergovernmental	\$ 91,450	\$ 91,450	\$ -
Charges for services	125,000	139,735	14,735
Miscellaneous	-	1,299	1,299
Total revenues	<u>216,450</u>	<u>232,484</u>	<u>16,034</u>
EXPENDITURES			
Current:			
Sanitation	<u>315,522</u>	<u>284,875</u>	<u>30,647</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(99,072)</u>	<u>(52,391)</u>	<u>46,681</u>
OTHER FINANCING SOURCES			
Transfers in	<u>99,072</u>	<u>-</u>	<u>(99,072)</u>
Net change in fund balances	<u>\$ -</u>	<u>(52,391)</u>	<u>\$ (52,391)</u>
Committed fund balance, beginning		<u>147,981</u>	
Committed fund balance, ending		<u>\$ 95,590</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, 2017

	Business-type Activities
	Enterprise Fund (Water Department)
ASSETS	
Cash and cash equivalents	\$ 76,201
Investments	7,893
Accounts receivable (net)	77,675
Internal balances	128
Capital assets, not being depreciated:	
Land	118,516
Capital assets, net of accumulated depreciation:	
Machinery and equipment	28,044
Infrastructure	3,952,403
Total assets	4,260,860
LIABILITIES	
Current liabilities:	
Accrued interest payable	1,182
Noncurrent liabilities:	
Due within one year:	
Note	68,898
Due in more than one year:	
Note	1,756,652
Total liabilities	1,826,732
NET POSITION	
Net investment in capital assets	2,273,413
Restricted	160,715
Total net position	\$ 2,434,128

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, 2017

	Business-type Activities
	Enterprise Fund (Water Department)
Operating revenues:	
User charges	\$ 276,538
Miscellaneous	2,226
Total operating revenues	278,764
Operating expenses:	
Salaries and wages	8,069
Operation and maintenance	190,527
Depreciation and amortization	182,761
Total operating expenses	381,357
Operating loss	(102,593)
Nonoperating revenue (expense):	
Interest	448
Interest expense	(42,171)
Total nonoperating revenues (expenses)	(41,723)
Other financing sources (uses):	
Transfer in	38,100
Loss on sale of capital assets	(68,391)
Total other financing sources (uses)	(30,291)
Change in net position	(174,607)
Net position, beginning	2,608,735
Net position, ending	\$ 2,434,128

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, 2017

Cash flows from operating activities:	
Receipts from customers and users	\$ 269,750
Payments to employees and suppliers	(200,587)
Net cash provided by operating activities	69,163
Cash flows from capital and related financing activities:	
Principal paid on bonds	(67,374)
Interest paid	(42,171)
Net cash used by capital and related financing activities	(109,545)
Cash flows from non-capital financing activities:	
Operating transfers in	38,100
Cash flows from investing activities:	
Interest received	448
Net decrease in cash	(1,834)
Cash, beginning	78,035
Cash, ending	\$ 76,201
<i>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</i>	
Operating loss	\$ (102,593)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	182,761
Increase in other receivables	(9,015)
Decrease in internal balances	(1,990)
Total adjustments	171,756
Net cash provided by operating activities	\$ 69,163

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

EXHIBIT F-1
TOWN OF FRANCONIA, NEW HAMPSHIRE
Fiduciary Funds
Statement of Net Position
December 31, 2017

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ 5,844	\$ 312
Investments	175,720	234,307
Total assets	181,564	\$ 234,619
LIABILITIES		
Intergovernmental payable	-	\$ 234,619
NET POSITION		
Held in trust for specific purposes	\$ 181,564	

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

EXHIBIT F-2
TOWN OF FRANCONIA, NEW HAMPSHIRE
Fiduciary Funds
Statement of Changes in Net Position
For the Fiscal Year Ended December 31, 2017

	Private Purpose Trust
ADDITIONS	
Investment income:	
Interest	\$ 4,680
Net increase in fair value of investments	8,321
Total additions	13,001
DEDUCTIONS	
Scholarships	1,000
Change in net position	12,001
Net position, beginning	169,563
Net position, ending	\$ 181,564

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

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2017

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TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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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 accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

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

1-A Reporting Entity

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

1-B Basis of Accounting, and Measurement Focus

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

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of reimbursement based grants, which use a period of one year. Property 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current 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
AS OF AND FOR THE FISCAL YEAR ENDED
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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, culture and recreation, and debt service. Under GASB Statement No. 54 guidance the library and expendable trust funds are consolidated in the general fund.

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

Additionally, the Town reports the following fund types:

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

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

Permanent Fund - is used to record activity of 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.

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

The Town reports the following major proprietary fund:

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

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

The Town also reports the following fiduciary funds:

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

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

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 a specific purpose.

1-E Statement of Cash Flows

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

1-F Investments

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

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

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

Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the Town. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

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

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

Level 2 inputs are other than quoted prices that are observable for the assets or liabilities, either directly or indirectly, including inputs in markets that are not considered to be active. Because they most often are priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held fixed income securities are categorized in Level 2.

Level 3 inputs are significant unobservable inputs.

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, it is the level in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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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, 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, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), 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 governmental activities column of 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 or amortized using the straight-line method over the following estimated useful lives:

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

1-I Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables – Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to 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.

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2017

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. Warrants for the year were issued on May 24, 2017 and October 23, 2017, and due on July 1, 2017 and December 1, 2017 respectively. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

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

The Town net assessed valuation as of April 1, 2017 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 279,605,782
For all other taxes	\$ 284,845,782

The tax rates and amounts assessed for the year ended December 31, 2017 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$6.00	\$ 1,710,612
School portion:		
State of New Hampshire	\$2.38	665,144
Local	\$7.57	2,156,223
County portion	\$1.80	511,563
Total	\$17.75	\$ 5,043,542

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, 2017.

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 (expense) until then.

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.

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 applicable governmental activities, business-type activities, or proprietary fund Statement of Net Position.

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2017

1-N Compensated Absences

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

1-O Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. Claims and judgments are recorded in the government-wide financial statements as an expense when the related liabilities are incurred.

1-P 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 are prepared by New Hampshire Retirement System, and are audited by the plan's independent auditors.

1-Q Net Position/Fund Balances

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

- a) *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any notes that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.
- b) *Restricted net position* – Consists of net position with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) *Unrestricted net position* – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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 – This classification includes 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 – This classification includes 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.

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2017

Committed – This classification includes 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 – This classification includes the amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

1-R Use of Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. These estimates include assessing the collectability of accounts receivable and the useful lives and impairment of tangible 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.

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 US generally accepted accounting principles.

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

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. For the fiscal year 2017, \$420,079 of the beginning general fund unassigned fund balance was voted from unassigned fund balance as a transfer to the capital reserve funds.

2-B Budgetary Reconciliation to GAAP Basis

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

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

Revenues and other financing sources:	
Per Exhibit D-1 (budgetary basis)	\$ 3,296,111
Adjustments:	
Basis difference:	
GASB Statement No. 54:	
To record miscellaneous income of the blended funds	95,658
To eliminate transfers between blended funds	(600,890)
Change in deferred tax revenue relating to 60-day revenue recognition	69,424
Change in allowance for uncollectible taxes	(125,000)
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,735,303</u>
	<u>(Continued)</u>

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2017

Budgetary reconciliation to GAAP basis continued:

Expenditures and other financing uses:	
Per Exhibit D-1 (budgetary basis)	\$ 2,815,502
Adjustment:	
Basis differences:	
GASB Statement No. 54:	
To record expenditures of the blended funds during the year	112,055
To eliminate transfers between general and blended funds	<u>(831,090)</u>
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 2,096,467</u></u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

The Town’s deposits are entirely covered by federal depository insurance (FDIC) or by collateral held by the Town’s agent in the Town’s name. The FDIC currently insures the first \$250,000 of the Town’s deposits at each financial institution, per case custodian. Deposit balances over \$250,000 are insured by the collateral. As of year-end, the carrying amount of the Town’s deposits was \$2,441,809 and the bank balances totaled \$2,358,331.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 2,435,653
Cash per Statement of Net Position - Fiduciary Fund (Exhibit F-1)	<u>6,156</u>
Total cash and cash equivalents	<u><u>\$ 2,441,809</u></u>

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

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

NOTE 4 – RESTRICTED ASSETS

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

Cash and cash equivalents:	
General fund:	
Library	\$ 41,734
Capital reserve funds	<u>2,293</u>
Total restricted cash and cash equivalents	<u>44,027</u>
Investments:	
General fund:	
Library	289,549
Capital reserve funds	<u>1,063,255</u>
Total restricted investments	<u>1,352,804</u>
Total restricted assets	<u><u>\$ 1,396,831</u></u>

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 5 – INVESTMENTS

Note 1-F describes statutory requirements covering the investment of the Town funds. The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town’s mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Town has the following recurring fair value measurements and maturities as of December 31, 2017:

	Valuation Measurement Method	Fair Value
Investments type:		
Equity exchange traded funds	Level 1	\$ 376,516
Equity mutual funds	Level 1	218,694
Fixed income exchange traded funds	Level 2	1,297,637
New Hampshire Public Deposit Investment Pool	Level 2	287,257
Total fair value		\$ 2,180,104

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’s investment policies do not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Town considers interest rate risk a systematic risk that cannot be diversified.

Credit Risk – This is the risk associated with a particular industry or company within an industry. The Town’s investment policies consider credit risk a non-systematic risk that can be reduced through diversification.

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

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 1,770,077
Investments per Statement of Net Position - Fiduciary Funds (Exhibit F-1)	410,027
Total investments	\$ 2,180,104

NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of December 31, 2017. The amount has been reduced by an allowance for an estimated uncollectible amount of \$175,000 in the general fund. Taxes receivable by year are as follows:

	As reported on:	
	Exhibit A	Exhibit C-1
Property:		
Levy of 2017	\$ 161,129	\$ 161,129
Levy of 2016	45,106	45,106
Unredeemed (under tax lien):		
Levy of 2016	26,901	26,901
Levy of 2015	3,267	3,267
Levies of 2014 and prior	19,073	19,073
Land use change	7,100	7,100
Less: allowance for estimated uncollectible taxes	(175,000) *	-
Net taxes receivable	\$ 87,576	\$ 262,576

*The allowance for uncollectible property taxes is not recognized under the modified accrual basis of accounting (Exhibits 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, 2017, consisted of accounts (billings water, ambulance, and note proceeds) 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, 2017 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	\$ 218,944	\$ -	\$ 81,515	\$ 300,459
Intergovernmental	11,544	45,725	-	57,269
Gross receivables	230,488	45,725	81,515	357,728
Less: allowance for uncollectibles	(164,533)	-	(3,840)	(168,373)
Net total receivables	<u>\$ 65,955</u>	<u>\$ 45,725</u>	<u>\$ 77,675</u>	<u>\$ 189,355</u>

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 is as follows:

	Balance, beginning	Additions	Deletions	Balance, ending
Governmental activities:				
At cost:				
Not being depreciated:				
Land	\$ 814,334	\$ -	\$ -	\$ 814,334
Being depreciated:				
Buildings and building improvements	2,751,179	35,519	-	2,786,698
Machinery, equipment and vehicles	2,346,871	-	-	2,346,871
Infrastructure	295,759	-	-	295,759
Total capital assets being depreciated	<u>5,393,809</u>	<u>35,519</u>	<u>-</u>	<u>5,429,328</u>
Total all capital assets	<u>6,208,143</u>	<u>35,519</u>	<u>-</u>	<u>6,243,662</u>
Less accumulated depreciation:				
Buildings and building improvements	(336,419)	(66,506)	-	(402,925)
Machinery, equipment and vehicles	(1,424,637)	(183,212)	-	(1,607,849)
Infrastructure	(72,685)	(29,031)	-	(101,716)
Total accumulated depreciation	<u>(1,833,741)</u>	<u>(278,749)</u>	<u>-</u>	<u>(2,112,490)</u>
Net book value, capital assets being depreciated	<u>3,560,068</u>	<u>(243,230)</u>	<u>-</u>	<u>3,316,838</u>
Net book value, all governmental activities capital assets	<u>\$ 4,374,402</u>	<u>\$ (243,230)</u>	<u>\$ -</u>	<u>\$ 4,131,172</u>

(Continued)

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Capital assets continued:

	<u>Balance, beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, ending</u>
Business-type activities:				
At cost:				
Not being depreciated:				
Land	\$ 118,516	\$ -	\$ -	\$ 118,516
Being depreciated:				
Machinery and equipment	68,705	-	(24,275)	44,430
Infrastructure	5,185,352	-	(68,719)	5,116,633
Total capital assets being depreciated	<u>5,254,057</u>	<u>-</u>	<u>(92,994)</u>	<u>5,161,063</u>
Total all capital assets	<u>5,372,573</u>	<u>-</u>	<u>(92,994)</u>	<u>5,279,579</u>
Less accumulated depreciation:				
Machinery and equipment	(33,954)	(4,971)	22,539	(16,386)
Infrastructure	(988,504)	(177,791)	2,065	(1,164,230)
Total accumulated depreciation	<u>(1,022,458)</u>	<u>(182,762)</u>	<u>24,604</u>	<u>(1,180,616)</u>
Net book value, capital assets being depreciated	<u>4,231,599</u>	<u>(182,762)</u>	<u>(68,390)</u>	<u>3,980,447</u>
Net book value, all business-type activities capital assets	<u>\$ 4,350,115</u>	<u>\$ (182,762)</u>	<u>\$ (68,390)</u>	<u>\$ 4,098,963</u>

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

Governmental activities:		
General government		\$ 31,253
Public safety		110,515
Highways and streets		107,502
Sanitation		9,413
Culture and recreation		20,066
Total depreciation expense		<u>\$ 278,749</u>
Business-type activities:		
Water		<u>\$ 182,762</u>

NOTE 9 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2017 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Transfer Station	\$ 91,223
Water Department	General	128
Nonmajor	General	21,535
		<u>\$ 112,886</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, 2017 is as follows:

	Transfers In:		
	General Fund	Water Department	Total
Transfers out:			
General fund	\$ -	\$ 38,100	\$ 38,100
Nonmajor fund	999	-	999
Total	\$ 999	\$ 38,100	\$ 39,099

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 \$1,494,654 at December 31, 2017 consist of the following:

General fund:		
Balance of the fiscal year 2017-18 assessment due to the Lafayette Regional School District	\$	737,863
Balance of the fiscal year 2017-18 assessment due to the Profile School District		522,172
Total general fund		1,260,035
Agency fund:		
Balance of capital reserve funds held by the Trustees of Trust Funds on behalf of the Lafayette Regional School District		234,619
Total intergovernmental payables due	\$	1,494,654

NOTE 11 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows of resources of \$164,138 in the government wide activities at December 31, 2017 consists of deferred amounts related to pensions. See Note 14 for further information on pension related deferrals.

Deferred inflows of resources are as follows:

	Government-wide	General Fund
Deferred property taxes not collected within 60 days of fiscal year-end	\$ -	\$ 63,960
Property payments received in advance of issuance of warrants	229,328	229,328
Additional highway block grant funds received per SB 38	45,705	45,705
Amounts related to pensions	22,362	-
Total deferred inflows of resources	\$ 297,395	\$ 338,993

NOTE 12 – SHORT-TERM DEBT

Changes in the Town's short-term borrowings during the year ended December 31, 2017 consisted of the following:

Governmental Activities	Original Issue	Interest Rate	Balance January 1, 2017	Additions	Deletions	Balance December 31, 2017
Tax anticipation note	\$ 300,000	2.00%	\$ -	\$ 300,000	\$ (300,000)	\$ -

The purpose of the short-time borrowings was to provide for interim financing of general fund operations. Interest of \$3,441 was paid on the note during 2017.

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NOTE 13 – LONG-TERM LIABILITIES

Changes in the Town’s long-term liabilities consisted of the following for the year ended December 31, 2017:

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017	Due Within One Year
Governmental activities:					
General obligation notes payable	\$ 1,551,479	\$ 19,430	\$ (67,116)	\$ 1,503,793	\$ 71,798
Compensated absences	56,674	-	(8,048)	48,626	6,582
Pension related liability	645,188	14,132	-	659,320	-
Total long-term liabilities	<u>\$ 2,253,341</u>	<u>\$ 33,562</u>	<u>\$ (75,164)</u>	<u>\$ 2,211,739</u>	<u>\$ 78,380</u>
Business-type activities:					
General obligation note payable	<u>\$ 1,892,924</u>	<u>\$ -</u>	<u>\$ (67,374)</u>	<u>\$ 1,825,550</u>	<u>\$ 68,898</u>

Long-term notes are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2017	Current Portion
Governmental activities:						
General obligation notes payable:						
Safety services building	\$ 1,700,000	2014	2034	2.84	\$ 1,484,363	\$ 69,036
Street light energy improvements	\$ 19,430	2017	2023	2.50	19,430	2,762
Total governmental activities general obligation note payable					<u>\$ 1,503,793</u>	<u>\$ 71,798</u>
Business-type activities:						
General obligation note payable:						
Water system improvement	\$ 2,267,000	2010	2038	2.25	<u>\$ 1,825,550</u>	<u>\$ 68,898</u>

The annual requirements to amortize all *governmental activities* general obligation notes outstanding as of December 31, 2017, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2018	\$ 71,798	\$ 42,017	\$ 113,815
2019	74,774	40,075	114,849
2020	76,799	38,051	114,850
2021	79,085	35,765	114,850
2022	81,333	33,516	114,849
2023-2027	421,776	132,819	554,595
2028-2032	484,460	69,096	553,556
2033-2034	213,768	7,655	221,423
Totals	<u>\$ 1,503,793</u>	<u>\$ 398,994</u>	<u>\$ 1,902,787</u>

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The annual requirements to amortize the *business-type activities* note outstanding as of December 31, 2017, including interest payments, are as follows:

December 31,	Principal	Interest	Total
2018	\$ 68,898	\$ 40,690	\$ 109,588
2019	70,458	39,130	109,588
2020	72,051	37,537	109,588
2021	73,682	35,906	109,588
2022	75,349	34,239	109,588
2023-2027	403,101	144,839	547,940
2028-2032	450,817	97,123	547,940
2033-2037	504,180	43,760	547,940
2038	107,014	1,805	108,819
Totals	<u>\$ 1,825,550</u>	<u>\$ 475,029</u>	<u>\$ 2,300,579</u>

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

NOTE 14 – DEFINED BENEFIT PENSION PLAN

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

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

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

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have nonvested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the member attains 52.5 years of age by ¼ of 1% or age 60.

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

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Contributions: The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 7% of earnable compensation. For fiscal year 2017, the Town contributed the following amounts:

<u>Period</u>	<u>Police</u>	<u>Fire</u>	<u>All Other Employees</u>
January 1, 2017 thru June 30,2017	26.38%	29.16%	11.17%
July 1, 2017 thru December 31, 2017	29.43%	31.89%	11.38%

The contribution requirements for the fiscal years 2015, 2016, and 2017 were \$48,280, \$56,604, and \$56,451, respectively, which were paid in full in each year.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions: At December 31, 2017 the Town reported a liability of \$659,320 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the Town's proportion was 0.01340628% which was an increase of 0.00127321% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Town recognized pension expense of \$93,934. At December 31, 2017 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion	\$ 74,389	\$ 5,574
Changes in assumptions	66,204	-
Net difference between projected and actual investment earnings on pension plan investments	-	8,397
Differences between expected and actual experience	1,495	8,391
Contributions subsequent to the measurement date	22,050	-
Total	<u>\$ 164,138</u>	<u>\$ 22,362</u>

The \$22,050 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 June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending December 31,</u>		
2018	\$	36,133
2019		47,751
2020		35,318
2021		524
Thereafter		-
Totals	<u>\$</u>	<u>119,726</u>

Actuarial Assumptions: The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2016, using the following actuarial assumptions which, accordingly apply to 2017 measurements:

Inflation:	2.5%	
Salary increases:	5.6% average, including inflation	
Investment rate of return:	7.25% net of pension plan investment expense, including inflation	

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

The actuarial assumptions used in the June 30, 2016 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. Following is a table presenting target allocations and long-term rates of return for 2017:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return <u>2017</u>
Large Cap Equities	22.50%	4.25%
Small/Mid Cap Equities	7.50%	4.50%
Total domestic equity	<u>30.00%</u>	
Int'l Equities (unhedged)	13.00%	4.50%
Emerging Int'l Equities	7.00%	6.25%
Total international equity	<u>20.00%</u>	
Core Bonds	5.00%	0.75%
Short Duration	2.00%	(0.25%)
Global Multi-Sector Fixed Income	11.00%	2.11%
Absolute Return Fixed Income	7.00%	1.26%
Total fixed income	<u>25.00%</u>	
Private equity	5.00%	6.25%
Private debt	5.00%	4.75%
Opportunistic	5.00%	2.84%
Total alternative investments	<u>15.00%</u>	
Real estate	10.00%	3.25%
Total	<u><u>100.00%</u></u>	

Discount Rate: The discount rate used to measure the 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, 2017	\$ 868,621	\$ 659,320	\$ 487,806

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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.

NOTE 15 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

The Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which was effective for the Town on January 1, 2009, requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported on the financial statements. The Town has not implemented GASB Statement No. 45 at December 31, 2017 or contracted with an actuarial firm to assist in evaluating the impact of this standard on the Town. The amounts that should be recorded as the annual required contribution/OPEB cost and the net OPEB obligation are unknown.

NOTE 16 – GOVERNMENTAL ACTIVITIES AND BUSINESS-TYPE ACTIVITIES NET POSITION

Governmental activities and business-type activities net position reported on the government-wide Statement of Net Position at December 31, 2017 include the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net investment in capital assets:		
Net book value, all capital assets	\$ 4,131,172	\$ 4,098,963
Less:		
General obligation notes payable	<u>(1,503,793)</u>	<u>(1,825,550)</u>
Total net investment in capital assets	<u>2,627,379</u>	<u>2,273,413</u>
Restricted net position:		
Perpetual care - nonexpendable	114,947	-
Perpetual care - expendable	19,386	-
Library	329,760	-
Water	-	160,715
Total restricted net position	<u>464,093</u>	<u>160,715</u>
Unrestricted	<u>1,882,277</u>	-
Total net position	<u>\$ 4,973,749</u>	<u>\$ 2,434,128</u>

NOTE 17 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2017 include the following:

	<u>General Fund</u>	<u>Transfer Station</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Tax deeded property	\$ 148,070	\$ -	\$ -	\$ 148,070
Permanent fund - principal balance	-	-	114,947	114,947
Total nonspendable fund balance	<u>148,070</u>	<u>-</u>	<u>114,947</u>	<u>263,017</u>
				<i>(Continued)</i>

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Governmental fund balances continued:

	General Fund	Transfer Station	Nonmajor Funds	Governmental Funds
Restricted:				
Safety services building	-	-	70,234	70,234
MacLachlin memorial	3,362	-	-	3,362
Permanent - income balance	-	-	19,386	19,386
Library	329,760	-	-	329,760
Total restricted fund balance	<u>333,122</u>	<u>-</u>	<u>89,620</u>	<u>422,742</u>
Committed:				
Expendable trust	1,065,548	-	-	1,065,548
Conservation	-	-	154,179	154,179
Sanitation	-	95,590	-	95,590
Total committed fund balance	<u>1,065,548</u>	<u>95,590</u>	<u>154,179</u>	<u>1,315,317</u>
Unassigned	<u>1,031,587</u>	<u>-</u>	<u>-</u>	<u>1,031,587</u>
Total governmental fund balances	<u>\$ 2,578,327</u>	<u>\$ 95,590</u>	<u>\$ 358,746</u>	<u>\$ 3,032,663</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 2017, the Town was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pool, currently operating as common risk management and insurance programs for member towns and cities.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from January 1, 2017 to December 31, 2017 by Primex³, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the Town of Franconia billed and paid for the year ended December 31, 2017 was \$25,999 for workers' compensation and \$38,091 for property/liability.

NOTE 19 – CONTINGENT LIABILITIES

There are various legal claims and suits pending against the Town which arose in the normal course of the governments activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect on the financial position of the Town.

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 – 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 September 10, 2018, the date the December 31, 2017 financial statements were available to be issued, and has identified the following subsequent event:

At the March 13, 2018 Annual Town Meeting, two warrant articles were approved that use \$80,828 of the December 31, 2017 unassigned fund balance.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G
TOWN OF FRANCONIA, NEW HAMPSHIRE
Schedule of the Town's Proportionate Share of Net Pension Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2017

Fiscal Year End	Valuation Date	Town's Proportion of Net Pension Liability	Proportionate Share of Net Pension Liability	Covered Payroll	Town Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
December 31, 2017	June 30, 2017	0.01340628%	\$ 659,320	\$ 216,893	303.98%	62.66%
December 31, 2016	June 30, 2016	0.01213307%	\$ 645,188	\$ 191,549	336.83%	58.30%
December 31, 2015	June 30, 2015	0.01167856%	\$ 462,649	\$ 183,472	252.16%	65.47%
December 31, 2014	June 30, 2014	0.01197524%	\$ 449,501	\$ 181,550	247.59%	66.32%

The note to the required supplementary information is an integral part of this schedule.

EXHIBIT H
TOWN OF FRANCONIA, NEW HAMPSHIRE
Schedule of Town Contributions
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2017

Fiscal Year End	Valuation Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2017	June 30, 2017	\$ 49,113	\$ 49,113	\$ -	\$ 216,893	22.64%
December 31, 2016	June 30, 2016	\$ 43,446	\$ 43,446	\$ -	\$ 191,549	22.68%
December 31, 2015	June 30, 2015	\$ 48,280	\$ 48,280	\$ -	\$ 183,472	26.31%
December 31, 2014	June 30, 2014	\$ 46,018	\$ 46,018	\$ -	\$ 181,550	25.35%

The note to the required supplementary information is an integral part of this schedule.

TOWN OF FRANCONIA, NEW HAMPSHIRE
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2017

Schedule of the Town’s Proportionate Share of Net Pension Liability & Schedule of Town Contributions

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, 2017, and preceding three years.

Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2017:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	22 Years beginning July 1, 2017 (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	3.56% per year
Investment Rate of Return	7.25% per year
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2015.
Mortality	RP-2014 Employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on the last experience study.

Other Information:

Notes	Contribution rates for Fiscal Year 2014 were determined based on the benefit changes adopted under House Bill No. 2 as amended by 011-2513-CofC.
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These schedules are presented to show information for 10 years. However, information is only presented for years 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, 2017

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 1,640,724	\$ 1,809,231	\$ 168,507
Land use change	28,000	17,942	(10,058)
Yield	8,000	8,723	723
Payment in lieu of taxes	69,309	69,309	-
Interest and penalties on taxes	50,000	75,743	25,743
Total from taxes	<u>1,796,033</u>	<u>1,980,948</u>	<u>184,915</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	-	315	315
Motor vehicle permit fees	230,000	280,451	50,451
Building permits	4,500	8,995	4,495
Other	6,000	6,401	401
Total from licenses, permits, and fees	<u>240,500</u>	<u>296,162</u>	<u>55,662</u>
Intergovernmental:			
State:			
Meals and rooms distribution	57,578	57,578	-
Highway block grant	53,567	50,876	(2,691)
Other	-	4,148	4,148
From other governments	36,383	29,736	(6,647)
Total from intergovernmental	<u>147,528</u>	<u>142,338</u>	<u>(5,190)</u>
Charges for services:			
Income from departments	79,500	173,398	93,898
Miscellaneous:			
Interest on investments	1,000	1,837	837
Contributions and donations	-	80,109	80,109
Other	29,420	-	(29,420)
Total from miscellaneous	<u>30,420</u>	<u>81,946</u>	<u>51,526</u>
Other financing sources:			
Transfers in	236,903	601,889	364,986
Debt proceeds	40,000	19,430	(20,570)
Total other financing sources	<u>276,903</u>	<u>621,319</u>	<u>344,416</u>
Total revenues and other financing sources	2,570,884	<u>\$ 3,296,111</u>	<u>\$ 725,227</u>
Amounts voted from fund balance	420,079		
Total revenues, other financing sources, and use of fund balance	<u>\$ 2,990,963</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, 2017

	<u>Appropriations</u>	<u>Expenditures</u>	Variance Positive (Negative)
Current:			
General government:			
Executive	\$ 144,072	\$ 137,287	\$ 6,785
Election and registration	46,239	41,238	5,001
Financial administration	45,598	47,874	(2,276)
Revaluation of property	9,450	7,875	1,575
Legal	90,211	93,076	(2,865)
Planning and zoning	5,236	4,655	581
General government buildings	176,966	171,710	5,256
Cemeteries	18,890	18,020	870
Insurance, not otherwise allocated	10,325	10,325	-
Advertising and regional associations	12,390	14,352	(1,962)
Total general government	<u>559,377</u>	<u>546,412</u>	<u>12,965</u>
Public safety:			
Police	379,008	369,121	9,887
Fire	209,595	187,362	22,233
Building inspection	3,000	4,458	(1,458)
Emergency management	2,900	58,595	(55,695)
Other	45,500	41,258	4,242
Total public safety	<u>640,003</u>	<u>660,794</u>	<u>(20,791)</u>
Highways and streets:			
Highways and streets	486,388	449,200	37,188
Street lighting	61,500	21,661	39,839
Total highways and streets	<u>547,888</u>	<u>470,861</u>	<u>77,027</u>
Health:			
Health agencies	17,462	16,262	1,200
Welfare:			
Direct assistance	9,700	9,542	158
Culture and recreation:			
Parks and recreation	130,338	125,469	4,869
Library	-	785	(785)
Patriotic purposes	1,000	1,000	-
Other	421	503	(82)
Total culture and recreation	<u>131,759</u>	<u>127,757</u>	<u>4,002</u>
Conservation	1,000	532	468
Debt service:			
Principal of long-term debt	88,560	67,116	21,444
Interest on long-term debt	60,252	43,595	16,657
Interest on tax anticipation notes	4,800	3,441	1,359
Total debt service	<u>153,612</u>	<u>114,152</u>	<u>39,460</u>
Other financing uses:			
Transfers out	930,162	869,190	60,972
Total appropriations, expenditures, and other financing uses	<u>\$ 2,990,963</u>	<u>\$ 2,815,502</u>	<u>\$ 175,461</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, 2017

Unassigned fund balance, beginning (Non-GAAP Budgetary Basis)		\$ 494,438
Changes:		
Amounts voted from fund balance		(420,079)
2017 Budget summary:		
Revenue surplus (Schedule 1)	\$ 725,227	
Unexpended balance of appropriations (Schedule 2)	<u>175,461</u>	
2017 Budget surplus		900,688
Increase in nonspendable fund balance		(54,469)
Increase in restricted fund balance		<u>(31)</u>
Unassigned fund balance, ending (Non-GAAP Budgetary Basis)		920,547
Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis:		
To comply with generally accepted accounting principles		
by deferring property taxes not collected within 60 days of the fiscal year-end		(63,960)
Elimination of the allowance for uncollectible taxes		<u>175,000</u>
Unassigned fund balance, ending, GAAP basis (Exhibit C-1)		<u><u>\$ 1,031,587</u></u>

SCHEDULE 4
TOWN OF FRANCONIA, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2017

	Special Revenue Fund <u>Conservation Commission</u>	Capital Project Fund <u>Safety Services Building</u>	Permanent Fund	Total
ASSETS				
Cash and cash equivalents	\$ 766	\$ 70,234	\$ 4,324	\$ 75,324
Investments	131,878	-	130,009	261,887
Interfund receivable	21,535	-	-	21,535
Total assets	<u>\$ 154,179</u>	<u>\$ 70,234</u>	<u>\$ 134,333</u>	<u>\$ 358,746</u>
FUND BALANCES				
Nonspendable	\$ -	\$ -	\$ 114,947	\$ 114,947
Restricted	-	70,234	19,386	89,620
Committed	154,179	-	-	154,179
Total fund balances	<u>\$ 154,179</u>	<u>\$ 70,234</u>	<u>\$ 134,333</u>	<u>\$ 358,746</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, 2017

	Special Revenue Fund <u>Conservation Commission</u>	Capital Project Fund <u>Safety Services Building</u>	Permanent Fund	Total
Revenues:				
Taxes	\$ 21,500	\$ -	\$ -	\$ 21,500
Miscellaneous	1,214	35	9,649	10,898
Total revenues	<u>22,714</u>	<u>35</u>	<u>9,649</u>	<u>32,398</u>
Expenditures:				
Current:				
Conservation	<u>30</u>	<u>-</u>	<u>-</u>	<u>30</u>
Excess of revenues over expenditures	<u>22,684</u>	<u>35</u>	<u>9,649</u>	<u>32,368</u>
Other financing uses:				
Transfers out	<u>-</u>	<u>-</u>	<u>(999)</u>	<u>(999)</u>
Net change in fund balances	22,684	35	8,650	31,369
Fund balances, beginning	<u>131,495</u>	<u>70,199</u>	<u>125,683</u>	<u>327,377</u>
Fund balances, ending	<u>\$ 154,179</u>	<u>\$ 70,234</u>	<u>\$ 134,333</u>	<u>\$ 358,746</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major governmental and proprietary funds, and aggregate remaining fund information of the Town of Franconia, as of and for the year ended December 31, 2017, 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 September 10, 2018.

Internal Control over Financial Reporting

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

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

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

2017-01 Bank Reconciliations

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

Management's Response: The Town Administrator balances the bank accounts on a monthly basis. Currently, reconciliations with the Treasurer and Town Administrator are not being done. Town Administrator Burbank has reached out to the Town Treasurer on a few occasions to work with her to reconcile monthly, however, this process has yet to take place. She will continue to reach out with the hopes of accomplishing this during 2018.

***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:

2017-02 Adjusting Journal Entries

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

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

Management's Response: This policy has yet to be developed. The Town Administrator will work to get one in place.

2017-03 Property Taxes and Water Rents

Several issues were noted relative to the Town's processes and procedures related to property taxes and water rents and are as follows:

- Property tax and water rent receivables are not reconciled between the Tax Collector's records and the Town's general ledger.
- Property tax, other tax warrants and water rents are not being posted to the general ledger. Presently, only cash receipts are being posted.
- The Town has not deeded property until recently and therefore is accruing a larger tax and lien receivable balance.

The lack of reconciliation between the general ledger and Tax Collector has led to the inability to determine accurate accounts receivable balances on the general ledger. The posting of the tax warrants and water rents would also be identified in this process. 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. In addition, we recommend that once a property tax, other tax warrant and/or water rents is issued that a copy of the warrant be given to the Administrative Assistant so that it can be properly recorded in the general ledger which will aid in the monthly reconciliation process.

Finally, we recommend that the Board work with the property owners to establish payment plans in order to try and collect on the taxes that should have been deeded dating back to 2002.

Management's Response: The process of reconciling receivables with the Tax Collector will be done this year.

Property tax and other warrants have not been posted to the general ledger, but could be updated for fiscal year 2018, and continue moving forward in fiscal year 2019. Town Administrator Burbank will consult with Jan Lechnir of Better Bookkeeping to help get this accomplished and make sure that it won't affect the work that has been done in QuickBooks so far.

The older taxes dating back to 2002 are in the process of being reviewed, and the Town has been working with their attorney to collect from these property owners by suit.

2017-04 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

***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***

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: There is currently no reconciliation process in place. There is also no policy or procedure relating to monthly reconciliation or write-offs. The Town Administrator will work with the Life Squad Director to create policies and reconciliations.

2017-05 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 Manager 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 Manager.

Management's Response: This process is currently being reviewed. Pre-numbered receipts are and have always been used.

2017-06 Town Policies

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

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

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

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

Management's Response: Town policies are currently being reviewed, and will continue to be reviewed throughout this year and next.

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, dated September 17, 2018.

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***

Town of Franconia's Response to Findings

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

Purpose of This Report

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

September 10, 2018



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