

TOWN OF HOLLIS, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended December 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Hollis, New Hampshire

Additional Offices:

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Town of Hollis, New Hampshire, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Town'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 Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Town of Hollis, New Hampshire, as of December 31, 2018, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Pension and OPEB schedules appearing on pages 48 to 51, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2019 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting

and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Melanson Heath

July 12, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Hollis, New Hampshire (the Town), we offer readers this narrative overview and analysis of the financial activities of the Town for the year ended December 31, 2018.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities include general government, public safety, highways and streets, sanitation, health, welfare, culture and recreation, and conservation.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available

at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's programs.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$30,300,188 (i.e., net position), a change of \$756,777 in comparison to the prior year.
- As of the close of the current year, governmental funds reported combined ending fund balances of \$7,752,364, a change of \$325,175 in comparison to the prior year.
- At the end of the current year, unassigned fund balance for the general fund was \$3,803,543, a change of (\$162,635) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior years.

	<u>NET POSITION</u>	
	Governmental Activities	
	<u>2018</u>	<u>2017</u>
Assets:		
Current and other assets	\$ 17,424,744	\$ 16,819,907
Capital assets	<u>39,567,072</u>	<u>39,872,438</u>
Total assets	56,991,816	56,692,345
Deferred outflows of resources	<u>1,093,362</u>	<u>1,374,441</u>
Total assets and deferred outflows	<u>\$ 58,085,178</u>	<u>\$ 58,066,786</u>
Liabilities:		
Current liabilities	\$ 8,905,288	\$ 9,089,308
Noncurrent liabilities	<u>18,349,765</u>	<u>18,788,288</u>
Total liabilities	27,255,053	27,877,596
Deferred inflows of resources	529,937	253,547
Net position:		
Net investment in capital assets	30,467,858	30,079,632
Restricted	2,569,654	2,423,515
Unrestricted	<u>(2,737,324)</u>	<u>(2,567,504)</u>
Total net position	<u>30,300,188</u>	<u>29,935,643</u>
Total liabilities, deferred inflows, and net position	<u>\$ 58,085,178</u>	<u>\$ 58,066,786</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$30,300,188, a change of \$756,777.

The largest portion of net position, \$30,467,858, reflects our investment in capital assets (e.g., land, buildings and improvements, machinery, equipment, and furnishings, infrastructure, and construction in progress), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$2,569,654, represents resources that are subject to external restrictions on how they may be used.

Unrestricted net position has a negative balance of (\$2,737,324), resulting primarily from the Town's unfunded net pension liability and net OPEB liability, \$7,222,114 and \$1,452,940 respectively.

CHANGE IN NET POSITION

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ 810,334	\$ 761,347
Operating grants and contributions	14,270	8,877
Capital grants and contributions	509,590	418,360
General revenues:		
Property taxes	7,397,934	7,114,601
Licenses and permits	2,035,135	1,994,463
Penalties, interest, and other taxes	276,531	211,452
Grants and contributions not restricted to specific programs	400,063	400,805
Investment income	105,034	152,958
Miscellaneous	<u>89,327</u>	<u>58,267</u>
Total revenues	11,638,218	11,121,130
Expenses:		
General government	3,579,041	3,583,585
Public safety	3,919,680	3,589,130
Highways and streets	2,149,047	2,042,952
Sanitation	454,669	468,741
Health and welfare	49,605	47,501
Culture and recreation	477,533	426,537
Conservation	22,403	11,847
Interest	<u>229,463</u>	<u>289,367</u>
Total expenses	<u>10,881,441</u>	<u>10,459,660</u>
Change in net position	756,777	661,470
Net position - beginning of year, as restated	<u>29,543,411</u>	<u>29,274,173</u>
Net position - end of year	<u><u>\$ 30,300,188</u></u>	<u><u>\$ 29,935,643</u></u>

Fiscal year 2017 amounts were not restated as the Town applied GASB 75 prospectively.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$756,777. Key elements of this change are as follows:

General fund revenues and other financing sources in excess of expenditures and other financing uses	\$ 223,570
Decrease in net pension liability and related deferred outflows and inflows of resources	(150,895)
Decrease in OPEB liability and related deferred inflows and inflows of resources	(185,321)
Capital grants and contributions	509,590
Other	<u>359,833</u>
Total	<u>\$ 756,777</u>

D. FINANCIAL ANALYSIS OF FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, governmental funds reported combined ending fund balances of \$7,752,364, a change of \$325,175 in comparison to the prior year. Key elements of this change are as follows:

General fund revenues and other financing sources over expenditures and other financing uses	\$ 223,570
Ambulance fund revenues over expenditures	87,465
Conservation fund revenues over expenditures	170,970
Block grant fund expenditures over revenues	(135,035)
Permanent trust funds expenditures over revenues	(43,014)
Other	<u>21,219</u>
Total	<u>\$ 325,175</u>

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$3,803,543, while total fund balance was \$5,221,948. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>12/31/18</u>	<u>12/31/17</u>	<u>Change</u>	<u>Percentage of Total Town, School, and County Appropriations</u>
Unassigned fund balance	\$ 3,803,543	\$ 3,966,178	\$ (162,635)	12%
Total fund balance	\$ 5,221,948	\$ 4,998,378	\$ 223,570	16%

The fund balance of the general fund changed by \$223,570 during the current year. Key factors in this change are as follows:

Use of unassigned fund balance	\$ (784,000)
Use of assigned fund balance	(8,465)
Revenues greater than budget	266,221
Expenditures less than budget	413,635
Current year appropriation carryforwards	112,748
Change in capital reserve funds	94,368
Taxes collected in excess of budget	<u>129,063</u>
Total	<u>\$ 223,570</u>

Included in the total general fund balance are the Town's capital reserve funds with an ending balance of \$443,530, a change of \$94,368 in comparison to the prior year.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$8,465. This change relates to a carry-forward from the prior year budget that was expended in the current year.

The difference between the final amended budget and actual results is a positive variance of \$679,856 with revenues and other sources over estimated budgets by \$266,221 and expenditures and other uses less than the estimated budget by \$413,635. Significant variances include:

- Positive variance in penalties, interest, and other taxes of \$118,401 is mainly attributed to land use tax with actual revenues coming in higher than budgeted revenues by \$133,270.
- Positive variance in general government of \$240,848 is mainly attributed to savings in health insurance and unexpended funds in our contingency fund account.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year-end amounted to \$39,567,072 (net of accumulated depreciation), a change of (\$305,366) from the prior year. This investment in capital assets includes land, buildings and improvements, machinery, equipment, and furnishings, infrastructure, and construction in progress.

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

- Public safety installations of four cisterns \$280,000
- Fire department purchase of a Fire truck chassis \$258,665
- Public safety purchase of four 2018 Ford Explorer Police Cruisers \$114,728

Additional information on capital assets can be found in the Notes to Financial Statements.

Credit rating. The Town maintained the Moody Investor Services rating of Aa2 during the year. The prior year rating upgrade reflected the Town's moderately-sized tax base with above average wealth levels, manageable debt burden, and a multiple year trend of improving financial operations and healthy reserves.

Long-term debt. At the end of the current year, total bonded debt outstanding was \$8,451,000, all of which was backed by the full faith and credit of the government. The Town did not issue any new debt during the year.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Hollis' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Finance Director
Town of Hollis, New Hampshire
7 Monument Square
Hollis, New Hampshire 03049

TOWN OF HOLLIS, NEW HAMPSHIRE
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Governmental Activities
ASSETS	
Current:	
Cash and short-term investments	\$ 15,077,640
Investments	978,080
Receivables:	
Property taxes	515,425
Departmental and other	77,928
Intergovernmental	47,141
Other assets	<u>218,124</u>
Total current assets	16,914,338
Noncurrent:	
Receivables:	
Property taxes	171,441
Deposit on asset	338,965
Capital assets:	
Land and construction in progress	27,164,530
Other capital assets, net of accumulated depreciation	<u>12,402,542</u>
Total noncurrent assets	<u>40,077,478</u>
Total Assets	56,991,816
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	782,730
Related to OPEB	92,060
Related to bond refunding	<u>218,572</u>
Total deferred outflows of resources	<u>1,093,362</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ <u>58,085,178</u>
LIABILITIES	
Current:	
Accounts payable	\$ 95,280
Due to school districts	7,733,179
Accrued expenses	145,929
Unearned revenue	383,718
Other liabilities	463,787
Accrued interest payable	83,395
Current portion of noncurrent liabilities:	
Bonds payable	1,140,000
Compensated absences	29,626
Capital leases	<u>256,544</u>
Total current liabilities	10,331,458
Noncurrent:	
Bonds payable, net of current portion	7,311,000
Compensated absences, net of current portion	266,634
Capital leases, net of current portion	670,907
Net OPEB liability	1,452,940
Net pension liability	<u>7,222,114</u>
Total noncurrent liabilities	<u>16,923,595</u>
Total Liabilities	27,255,053
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	483,394
Related to OPEB	46,543
NET POSITION	
Net investment in capital assets	30,467,858
Restricted externally or constitutionally for:	
Grants and enabling legislation	1,614,820
Permanent funds:	
Nonexpendable	731,751
Expendable	223,083
Unrestricted	<u>(2,737,324)</u>
Total Net Position	<u>30,300,188</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ <u>58,085,178</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018

		Program Revenues			Net (Expenses) Revenues
			Operating	Capital	
	Expenses	Charges for	Grants and	Grants and	Governmental
		Services	Contributions	Contributions	Activities
Governmental Activities					
General government	\$ 3,579,041	\$ 150,518	\$ -	\$ -	\$ (3,428,523)
Public safety	3,919,680	531,116	-	280,000	(3,108,564)
Highways and streets	2,149,047	15,025	-	229,590	(1,904,432)
Sanitation	454,669	63,165	-	-	(391,504)
Health and welfare	49,605	765	-	-	(48,840)
Culture and recreation	477,533	49,745	14,270	-	(413,518)
Conservation	22,403	-	-	-	(22,403)
Interest	229,463	-	-	-	(229,463)
Total	<u>\$ 10,881,441</u>	<u>\$ 810,334</u>	<u>\$ 14,270</u>	<u>\$ 509,590</u>	(9,547,247)
General Revenues and Contributions					
					7,397,934
					2,035,135
					276,531
					400,063
					105,034
					89,327
Total general revenues and contributions					<u>10,304,024</u>
Change in Net Position					756,777
Net Position					
Beginning of year, as restated					<u>29,543,411</u>
End of year					<u>\$ 30,300,188</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2018

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 13,590,888	\$ 1,486,752	\$ 15,077,640
Investments	-	978,080	978,080
Receivables:			
Property taxes	686,866	-	686,866
Departmental and other	38,690	39,238	77,928
Intergovernmental	47,141	-	47,141
Due from other funds	45,374	118,886	164,260
Other assets	<u>218,124</u>	<u>-</u>	<u>218,124</u>
TOTAL ASSETS	\$ <u>14,627,083</u>	\$ <u>2,622,956</u>	\$ <u>17,250,039</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 86,470	\$ 8,810	\$ 95,280
Accrued expenses	145,929	-	145,929
Due to school districts	7,733,179	-	7,733,179
Due to other funds	119,768	44,492	164,260
Unearned revenue	383,718	-	383,718
Other liabilities	<u>463,787</u>	<u>-</u>	<u>463,787</u>
TOTAL LIABILITIES	8,932,851	53,302	8,986,153
Deferred Inflows of Resources:			
Unavailable revenues	472,284	39,238	511,522
Fund Balances:			
Nonspendable	218,124	731,751	949,875
Restricted	-	1,798,665	1,798,665
Committed	443,530	-	443,530
Assigned	756,751	-	756,751
Unassigned	<u>3,803,543</u>	<u>-</u>	<u>3,803,543</u>
TOTAL FUND BALANCES	<u>5,221,948</u>	<u>2,530,416</u>	<u>7,752,364</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ <u>14,627,083</u>	\$ <u>2,622,956</u>	\$ <u>17,250,039</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

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

DECEMBER 31, 2018

Total governmental fund balances	\$ 7,752,364
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	39,567,072
• Deposit on capital asset	338,965
• Property taxes and other revenues are recognized on the accrual basis of accounting in the Statement of Net Position, not the modified accrual basis	511,522
• Deferred outflows and inflows of resources related to pension, OPEB and bond refunding are not financial resources nor are they available to pay current-period expenditures. Outflows and inflows consist of:	
Pension related deferred outflows	782,730
OPEB related deferred outflows	92,060
Bond refunding deferred outflows	218,572
Pension related deferred inflows	(483,394)
OPEB related deferred inflows	(46,543)
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(83,395)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. Long-term liabilities at year end consist of:	
Bonds payable	(8,451,000)
Compensated absences	(296,260)
Capital leases	(927,451)
Net OPEB liability	(1,452,940)
Net pension liability	<u>(7,222,114)</u>
Net position of governmental activities	\$ <u>30,300,188</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2018

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues			
Property taxes	\$ 7,115,658	\$ 205,283	\$ 7,320,941
Penalties, interest, and other taxes	276,531	-	276,531
Licenses and permits	2,212,976	-	2,212,976
Charges for services	393,780	248,853	642,633
Intergovernmental	629,653	14,270	643,923
Investment income	131,531	108	131,639
Miscellaneous	89,328	-	89,328
	<hr/>	<hr/>	<hr/>
Total Revenues	10,849,457	468,514	11,317,971
Expenditures			
General government	3,448,345	31,408	3,479,753
Public safety	3,969,364	103,436	4,072,800
Highways and streets	1,719,003	135,035	1,854,038
Sanitation	454,669	-	454,669
Health and welfare	49,566	39	49,605
Culture and recreation	43,222	369,175	412,397
Conservation	-	22,403	22,403
Debt service:			
Principal	1,153,000	-	1,153,000
Interest	274,470	-	274,470
	<hr/>	<hr/>	<hr/>
Total Expenditures	11,111,639	661,496	11,773,135
Excess (deficiency) of revenues over expenditures	(262,182)	(192,982)	(455,164)
Other Financing Sources (Uses)			
Issuance of capital lease	780,339	-	780,339
Transfers in	10,755	313,477	324,232
Transfers out	(305,342)	(18,890)	(324,232)
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	485,752	294,587	780,339
Change in fund balance	223,570	101,605	325,175
Fund Balance, at Beginning of Year	4,998,378	2,428,811	7,427,189
	<hr/>	<hr/>	<hr/>
Fund Balance, at End of Year	\$ 5,221,948	\$ 2,530,416	\$ 7,752,364
	<hr/>	<hr/>	<hr/>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

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

FOR THE YEAR ENDED DECEMBER 31, 2018

Net changes in fund balances - total governmental funds	\$ 325,175
<ul style="list-style-type: none">Governmental funds report outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capitalized costs, net of disposals	640,383
Depreciation	(945,749)
Deposit on capital asset	338,965
<ul style="list-style-type: none">Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., property taxes) differ between the two statements.	
	66,853
<ul style="list-style-type: none">The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:	
Repayment of bonds	1,153,000
Amortization of gain on refunding	(12,857)
Issuance of capital leases	(780,339)
Repayment of capital leases	273,123
<ul style="list-style-type: none">In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	
	57,864
<ul style="list-style-type: none">Some expenses reported in the Statement of Activities, such as compensated absences, net pension liability and net OPEB liability, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Net pension liability and related deferred outflows and inflows of resources	(150,895)
Net OPEB liability and related deferred outflows and inflows of resources	(185,321)
Compensated absences	(23,425)
Change in net position of governmental activities	\$ 756,777

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

TOWN OF HOLLIS, NEW HAMPSHIRE

GENERAL FUND

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

FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts			Actual	Variance with
	Original	From Prior	Final	Amounts	Final Budget
	Budget	Years'	Budget	(Budgetary	Positive
		Budgets		Basis)	(Negative)
Revenues and Other Sources					
Property taxes	\$ 6,986,595	\$ -	\$ 6,986,595	\$ 6,986,595	\$ -
Penalties, interest, and other taxes	158,130	-	158,130	276,531	118,401
Licenses and permits	2,135,775	-	2,135,775	2,212,976	77,201
Charges for services	358,355	-	358,355	393,780	35,425
Intergovernmental	629,190	-	629,190	629,653	463
Investment income	90,000	-	90,000	122,847	32,847
Miscellaneous	40,000	-	40,000	89,328	49,328
Transfers in	58,200	-	58,200	10,756	(47,444)
Use of fund balance	<u>784,000</u>	<u>8,465</u>	<u>792,465</u>	<u>792,465</u>	<u>-</u>
Total Revenues and Other Sources	11,240,245	8,465	11,248,710	11,514,931	266,221
Expenditures and Other Uses					
Current:					
General government	3,586,529	8,465	3,594,994	3,354,146	240,848
Public safety	3,276,996	-	3,276,996	3,256,789	20,207
Highways and streets	1,787,559	-	1,787,559	1,719,002	68,557
Sanitation	483,298	-	483,298	454,669	28,629
Health and welfare	60,800	-	60,800	49,566	11,234
Culture and recreation	48,250	-	48,250	43,222	5,028
Conservation	1	-	1	-	1
Debt service:					
Principal	1,153,000	-	1,153,000	1,153,000	-
Interest	274,470	-	274,470	274,470	-
Transfers out	<u>569,342</u>	<u>-</u>	<u>569,342</u>	<u>530,211</u>	<u>39,131</u>
Total Expenditures and Other Uses	<u>11,240,245</u>	<u>8,465</u>	<u>11,248,710</u>	<u>10,835,075</u>	<u>413,635</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 679,856</u>	<u>\$ 679,856</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2018

	Agency Funds
ASSETS	
Cash and short-term investments	\$ 525,905
Investments	<u>429,953</u>
Total Assets	<u>\$ 955,858</u>
LIABILITIES	
Other liabilities	<u>\$ 955,858</u>
Total Liabilities	<u>\$ 955,858</u>

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

TOWN OF HOLLIS, NEW HAMPSHIRE

Notes to Financial Statements

1. **Summary of Significant Accounting Policies**

The accounting policies of the Town of Hollis, New Hampshire (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the Town and applicable component units for which the Town is considered to be financially accountable. In 2018, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements.

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

Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The Town reports the following major governmental fund:

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

The *agency fund* accounts for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

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

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

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Investments are carried at fair value.

F. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "due from/to other funds" (i.e., the current portion of interfund loans) or "advance to/from other funds" (i.e., the non-current portion of interfund loans).

G. Capital Assets

Capital assets, which include land, buildings and improvements, machinery, equipment, and furnishings, infrastructure, and construction in progress, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	5 - 40
Machinery, equipment, and furnishings	5 - 20
Infrastructure	50

H. Compensated Absences

It is the Town's policy to permit employees to accumulate earned and paid time off benefits. All vested time off is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

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

creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Fund Balance Policy

The Town's fund balance policy describes the appropriate level of unassigned fund balance reserve to be consistent with the NH Department of Revenue Administration (DRA) and the Government Finance Officer Association (GFOA) guidelines:

1. DRA – Recommends retaining 5% to 10% of the gross general fund operating expenditures, including Town, School, and County appropriations. Unassigned fund balance is reported on the budgetary basis for tax rate setting purposes (see Note 15), which includes all property tax revenues that otherwise would have been deferred under the modified accrual basis. At December 31, 2018, unassigned fund balance on the budgetary basis was 14% Town, School, and County appropriations.
2. GFOA – Recommends retaining 8% to 17% of the gross general fund operating expenditures, including Town, School, and County appropriations. At December 31, 2018, unassigned fund balance was 12% of Town, School, and County appropriations.

L. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

The Town's budget is originally prepared by the Board of Selectmen with the cooperation of the various department heads. It is then submitted to the Budget Committee, in accordance with the Municipal Budget Law. After reviewing the budget, the Committee holds a public hearing for discussion. The final version of the budget is then submitted for approval at the Annual Town Meeting. The approved budget is subsequently reported to the State of New Hampshire on the statement of appropriation form in order to establish the current property tax rate.

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 10,849,457	\$ 11,111,639
Other financing sources/uses (GAAP basis)	<u>791,094</u>	<u>305,342</u>
Subtotal (GAAP Basis)	11,640,551	11,416,981
Adjust tax revenue to accrual basis	(129,063)	-
Add 2018 appropriation carryforwards to expenditures	-	112,751
To remove gross up for capital lease	(780,339)	(780,339)
Reverse capital reserve fund activity	(8,683)	85,682
To record use of assigned fund balance	8,465	-
To record use of unassigned fund balance	<u>784,000</u>	<u>-</u>
Budgetary Basis	<u>\$ 11,514,931</u>	<u>\$ 10,835,075</u>

3. Cash

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. RSA 48:16 limits "deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus, exception that a Town with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank."

The Town limits investments to the following:

- Checking accounts
- Short-term obligations of U.S. Government and State of New Hampshire agencies approved for investment purposes by the Board of Selectmen
- Fully insured or collateralized certificates of deposits
- Repurchase agreements fully collateralized by U.S. Treasury Securities
- New Hampshire Public Deposit Investment Pool

Trustees of Trust Funds has the following asset allocation policy:

	General Trust <u>Funds</u>	Charles J. Nichols <u>Fund</u>
Equities	55 - 65%	35 - 45%
Fixed income	35 - 45%	55 - 65%
Cash and cash equivalents	0 - 5%	0 - 5%

Assets of the Trust Funds may only be invested in accordance with the relevant RSA sections. RSA 35:9 specifies that Capital Reserves may only be deposited in banking institutions either domiciled or doing business under the laws of the State of N.H. or of the U.S. Government. Likewise, RSA 31:25 specifies that General Trust Funds may only be deposited in banking institutions as stated above. However, in addition to those investments specified for Capital Reserves, General Trust Funds may also be invested in those stocks, bonds and mutual funds that may be invested in by the N.H. Savings Banks or as specified by the State Banking Commission.

As of December 31, 2018, the Town's cash bank balance was \$18,725,293. Of the balance, \$52,256 was exposed to custodial credit risk as uninsured or uncollateralized and \$968,554 was invested in the New Hampshire Public Deposit Investment Pool (NHPDIP) which is exempt from disclosure.

The Town is a voluntary participant in the NHPDIP. The NHPDIP is not registered with the United States Securities and Exchange Commission as an investment company. The NHPDIP was created by state law and is administered by a public body of state, local and banking officials.

Investments in the NHPDIP are not investment securities and, as such, are not categorized by risk. The Town's exposure to derivatives is indirect through its participation in the NHPDIP. The Town's proportional share of these derivatives is not available. The fair value of the position in the investment pool is equal to the value of the pool shares. In accordance with GASB 79, the pool's portfolio securities are valued at amortized cost.

Custodial Credit Risk - Investments. Custodial credit risk for investments is the risk that in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of another party. The Town's investments are exposed to custodial credit risk. The risk is managed for \$1,101,484 as they are held in separately identifiable trust funds with individual CUSIP numbers and \$306,547 is covered by SIPC.

4. **Investments**

A. **Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment.

Per the Trustees of Trust Funds investment policy, all individual fixed income securities shall have a minimum Standard and Poor's quality rating of "BBB" (Moody's rating of "Baa2").

The following are debt related securities held by the Trustees of Trust Funds:

<u>Investment Type</u>	<u>Amount</u>	<u>Rating</u>				<u>Average Duration</u>
		<u>Aaa-A3</u>	<u>Baa-B3</u>	<u>Caa-C</u>	<u>Unrated</u>	
Governmental bonds	\$ 20,384	\$ 20,384	\$ -	\$ -	\$ -	1.64
Fixed income mutual funds	<u>628,371</u>	367,085	234,865	1,088	25,333	4.18
Total debt related securities	<u>\$ 648,755</u>					

B. **Concentration of Credit Risk**

Per the Trustees of Trust Funds investment policy, investments in fixed income securities shall not exceed 10 percent except obligations of the United States and/or of the State of New Hampshire and its subdivisions.

Additionally, a majority of the equity investments should be in companies exceeding market capitalization of \$15 billion including:

- The exposure to any single company will not exceed 10 percent.
- The size of each investment not to exceed 10 percent.
- The maximum exposure to any single industry or market sector will not exceed 25 percent.
- Allowable investments include stocks, mutual funds and exchange traded funds.

The Town had the following investments with one issuer that represent 5% or more of total investments, other than mutual funds:

- Loomis Sayles Investment Grade Bond Fund Class Y

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The average duration of debt related securities is disclosed under credit risk.

D. Foreign Currency Risk

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

E. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quote prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

The Town does not have any Level 3 investments.

The Town has the following fair value measurements as of December 31, 2018:

<u>Description</u>	<u>Amount</u>	<u>Fair Value Measurements Using:</u>		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
Debt securities:				
Governmental bonds	\$ 20,384	\$ -	\$ 20,384	\$ -
Nongovernmental fixed income	628,371	-	628,371	-
Equity securities:				
Consumer discretionary	42,955	42,955	-	-
Consumer staples	46,562	46,562	-	-
Energy	42,541	42,541	-	-
Financials	86,534	86,534	-	-
Healthcare	75,706	75,706	-	-
Utilities	89,808	89,808	-	-
Other	43,465	43,465	-	-
Mutual Funds	331,707	331,707	-	-
Total	<u>\$ 1,408,033</u>	<u>\$ 759,278</u>	<u>\$ 648,755</u>	<u>\$ -</u>

5. Property Taxes Receivable

The Town bills property taxes semi-annually, in May and November. Property tax revenues are recognized in the fiscal year for which taxes have been levied. Property taxes billed or collected in advance of the year for which they are levied are recorded as a prepaid tax liability.

Property taxes are due on July 1 and December 1. Delinquent accounts are charged 12% interest. At the time of tax sale, in March of the next year, a lien is recorded on the property at the Registry of Deeds. The Town purchases all the delinquent accounts by paying the delinquent balance, recording costs and accrued interest. The accounts that are lienied by the Town will be reclassified from property taxes receivable to unredeemed tax liens receivable. After this date, delinquent accounts will be charged interest at a rate of 18%. The Town annually budgets an amount (overlay for abatements) for property tax abatements and refunds.

Property taxes receivable at December 31, 2018 consist of the following:

Property taxes:	
2018 levy	\$ 513,869
Unredeemed taxes:	
2017 levy	85,119
2016 levy	47,450
2015 levy	17,906
2014 levy	7,060
2013 levy	4,738
2012 levy	4,741
2011 levy	4,426
Land use tax	1,516
Yield tax	26
Excavation tax	15
Total Property Taxes	\$ <u>686,866</u>

Taxes Collected for Others

The Town collects property taxes for the Hollis School District, the Hollis Brookline Co-op, and the County of Hillsborough, New Hampshire. Payments to the other taxing units are normally made throughout the year. The ultimate responsibility for the collection of taxes rests with the Town.

6. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in 2018.

7. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the December 31, 2018 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 45,374	\$ 119,768
Nonmajor Governmental Funds:		
Capital Project Fund:		
Land acquisition	60,665	-
Special Revenue Funds:		
Highway block grant	57,310	-
Ambulance	227	-
Library	-	44,492
Zylonis	684	-
Total	<u>\$ 164,260</u>	<u>\$ 164,260</u>

The Town reports interfund transfers among many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental financial statements. The following is an analysis of the interfund transfers made in fiscal year 2018:

<u>Governmental Funds:</u>	<u>Transfers in</u>	<u>Transfers out</u>
General Fund	\$ 10,755	\$ 305,342
Nonmajor Governmental Funds:		
Special Revenue Funds:		
Ambulance	780	-
Library	310,346	-
Zylonis	2,351	-
Pearl Rideout - Library	-	3,858
Permanent Trust Funds:		
Library	-	1,145
Charles Zylonis - Library	-	2,351
Cemetery	-	7,993
Public Welfare	-	196
Nichols Field Horse Ring	-	90
Ambulance	-	780
Charles J. Nichols	-	2,477
Total	<u>\$ 324,232</u>	<u>\$ 324,232</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) to move interest income between funds. Additionally, the \$305,342 transfer from the general fund to the library special revenue fund represents the annual funding of operations of the Library.

8. Capital Assets

Capital asset activity for the year ended December 31, 2018 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 10,518	\$ -	\$ -	\$ 10,518
Machinery, equipment, and furnishings	6,598	656	(33)	7,221
Infrastructure	13,950	-	-	13,950
Total capital assets, being depreciated	31,066	656	(33)	31,689
Less accumulated depreciation for:				
Buildings and improvements	(5,624)	(229)	-	(5,853)
Machinery, equipment, and furnishings	(4,802)	(441)	18	(5,225)
Infrastructure	(7,933)	(276)	-	(8,209)
Total accumulated depreciation	(18,359)	(946)	18	(19,287)
Total capital assets, being depreciated, net	12,707	(290)	(15)	12,402
Capital assets, not being depreciated:				
Land	27,165	-	-	27,165
Total capital assets, not being depreciated	27,165	-	-	27,165
Governmental activities capital assets, net	\$ 39,872	\$ (290)	\$ (15)	\$ 39,567

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

Governmental Activities:	
General government	\$ 75,743
Public safety	395,876
Highways and streets	417,500
Culture and recreation	56,630
Total depreciation expense - governmental activities	\$ 945,749

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions and OPEB, in accordance with GASB Statements No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

10. Accounts Payable

Accounts payable represent 2018 expenditures paid after December 31, 2018.

11. Capital Lease Obligations

The Town is the lessee of certain equipment under capital leases expiring in various years through 2021. Future minimum payments under the capital leases consisted of the following as of December 31, 2018:

	Governmental <u>Activities</u>
2019	\$ 282,257
2020	226,478
2021	139,984
2022	102,465
2023	102,465
2024 - 2025	<u>153,697</u>
Total minimum lease payments	1,007,346
Less: amounts representing interest	<u>(79,895)</u>
Present value of minimum lease payments	<u><u>\$ 927,451</u></u>

12. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for acquisition and construction of capital items. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	Serial Maturities <u>Through</u>	Interest Rate %	Amount Outstanding as of <u>12/31/18</u>
Open Space	01/15/19	3.73%	\$ 110,000
GO Refunding Bond 2014 Series A	08/15/19	1.72%	199,000
GO Refunding Bond 2014 Series B-1	08/15/25	2.41%	2,430,000
GO Refunding Bond 2014 Series B-2	08/15/35	3.36%	1,507,000
GO Bond - Land Acquisition	02/01/27	2.14%	<u>4,205,000</u>
Total Governmental Activities			<u><u>\$ 8,451,000</u></u>

B. Future Debt Service

The annual payments to repay bonds payable outstanding as of December 31, 2018 are as follows:

Governmental Activities	Principal	Interest	Total
2019	\$ 1,140,000	\$ 201,756	\$ 1,341,756
2020	826,000	177,433	1,003,433
2021	822,000	158,037	980,037
2022	817,000	139,378	956,378
2023	808,000	120,895	928,895
2024 - 2028	3,000,000	345,050	3,345,050
2029 - 2033	750,000	125,215	875,215
2034 - 2035	288,000	14,000	302,000
Total	<u>\$ 8,451,000</u>	<u>\$ 1,281,764</u>	<u>\$ 9,732,764</u>

The general fund has been designated as the sole source to repay the governmental-type general obligation long-term debt outstanding as of December 31, 2018.

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2018, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 1/1/18	Additions	Reductions	Total Balance 12/31/18	Less Current Portion	Equals Long-Term Portion 12/31/18
<u>Governmental Activities</u>						
Bonds payable	\$ 9,604	\$ -	\$ (1,153)	\$ 8,451	\$ (1,140)	\$ 7,311
Compensated absences	273	23	-	296	(30)	266
Capital leases	421	780	(272)	929	(257)	672
Net OPEB liability	437	1,016	-	1,453	-	1,453
Net pension liability	7,661	-	(439)	7,222	-	7,222
Totals	<u>\$ 18,396</u>	<u>\$ 1,819</u>	<u>\$ (1,864)</u>	<u>\$ 18,351</u>	<u>\$ (1,427)</u>	<u>\$ 16,924</u>

13. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes. *Unavailable revenues* are reported in the governmental funds balance

sheet in connection with receivables for which revenues are not considered to liquidate liabilities of the current year.

14. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

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

The following types of fund balances are reported at December 31, 2018:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing special article appropriations approved at Town Meeting, capital reserve funds, and various special revenue funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period, and surplus set aside to be used in the subsequent year's budget.

Unassigned - Represents amounts that are available to be spent in future periods and general stabilization fund and deficit funds.

Following is a breakdown of the Town's fund balances at December 31, 2018:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Nonspendable:			
Prepaid expenses	\$ 218,124	\$ -	\$ 218,124
Nonexpendable permanent funds:			
Charles Nichols	-	242,817	242,817
Charles Zylonis	-	85,272	85,272
Common Cemetery	-	230,783	230,783
All remaining	-	172,879	172,879
Total Nonspendable	218,124	731,751	949,875
Restricted:			
Expendable permanent funds:			
Charles Nichols	-	33,793	33,793
Charles Zylonis	-	3,241	3,241
Common Cemetery	-	58,904	58,904
All remaining	-	127,145	127,145
Capital project funds:			
Land acquisition	-	60,665	60,665
Special revenue funds:			
Ambulance	-	412,123	412,123
Conservation	-	713,797	713,797
Library	-	75,846	75,846
Pearl Rideout - Library	-	56,547	56,547
All remaining	-	256,604	256,604
Total Restricted	-	1,798,665	1,798,665
Committed:			
Compensated absences	140,593	-	140,593
Flint Pond restoration	10,397	-	10,397
Environmental defense study	51,703	-	51,703
Emergency municipal building and facility maintenance	181,315	-	181,315
Municipal transportation	29,959	-	29,959
Revaluation	29,563	-	29,563
Total Committed	443,530	-	443,530
Assigned:			
Encumbered for:			
Bullet-resistant windows	15,630	-	15,630
Exacom recording system	13,307	-	13,307
Fire Pond - Mendelssohn Drive	12,800	-	12,800
Fire Pond - Orchard Drive	10,300	-	10,300
Master plan	1,356	-	1,356
Police scanning project	31,358	-	31,358
Town Hall scanning project	28,000	-	28,000
Use of fund balance for 2019	644,000	-	644,000
Total Assigned	756,751	-	756,751
Unassigned	3,803,543	-	3,803,543
Total Unassigned	3,803,543	-	3,803,543
Total Fund Balance	\$ 5,221,948	\$ 2,530,416	\$ 7,752,364

15. **General Fund Unassigned Fund Balance**

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how unassigned fund balance is reported in accordance with the budgetary basis for reporting for the State of New Hampshire for tax rate setting purposes. The major difference is the State of New Hampshire considers revenues in connection with property tax receivables to be available to liquidate liabilities when billed rather than received.

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

GAAP basis balance	\$ 3,803,543
Deferred inflows	<u>472,284</u>
Tax Rate Setting Balance	<u>\$ 4,275,827</u>

16. **Retirement System**

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

A. Plan Description

Full-time employees participate in the New Hampshire Retirement System (NHRS), a cost sharing, multiple-employer defined benefit contributory pension plan and trust established in 1967 by RSA 100-A:2 and qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death, and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and permanent police officers within the State of New Hampshire are eligible and required to participate in the system. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to *Group I*. Police officers and firefighters belong to *Group II*. All assets are held in a single trust and are available to each group. Additional information is disclosed in the NHRS annual report publicly available from the New Hampshire Retirement System located at 54 Regional Drive, Concord, New Hampshire 03301-8507.

B. Benefits Provided

Group I benefits are provided based on creditable service and average final salary for the highest of either three or five years, depending on when service commenced.

Group II benefits are provided based on age, years of creditable service, and a benefit multiplier depending on vesting status as of January 1, 2012. The maximum retirement allowance for Group II members vested by January 1, 2012 (45 years of age with 20 years of service or age 60 regardless of years of creditable service) is the average final compensation multiplied by 2.5% by creditable service. For Group II members not vested by January 1, 2012, the benefit is calculated the same way but the multiplier used in the calculation will change depending on age and years of creditable service, as follows:

Years of Creditable Service as of <u>January 1, 2012</u>	Minimum <u>Age</u>	Minimum <u>Service</u>	Benefit <u>Multiplier</u>
At least 3 but less than 10 years	46	21	2.4%
At least 6 but less than 8 years	47	22	2.3%
At least 4 but less than 6 years	48	12	2.2%
Less than 4 years	49	24	2.1%

C. Contributions

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 7% for employees and teachers 11.55% for police and 11.80% for fire. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and range from 11.08% to 27.79% of covered compensation. The Town's contribution to NHRS for the year ended December 31, 2018 was \$703,704, which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

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

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

At December 31, 2018, the Town reported a liability of \$7,222,114 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the Town's proportion was 0.15%.

For the year ended December 31, 2018, the Town recognized pension expense of \$653,759. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 57,645	\$ 58,478
Changes in proportion	-	257,790
Net difference between projected and actual earnings on pension plan investments	-	167,126
Changes in assumption	499,806	-
Contributions subsequent to the measurement date	<u>225,279</u>	<u>-</u>
Total	<u>\$ 782,730</u>	<u>\$ 483,394</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$225,279 will be recognized as a reduction of pension expense in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	<u>Outflows/ (Inflows)</u>
2019	\$ 236,878
2020	149,875
2021	(242,717)
2022	<u>(69,979)</u>
Total	<u>\$ 74,057</u>

F. Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5% per year
Salary increases	5.6% average, including inflation
Wage inflation	3.25%
Investment rate of return	7.25%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study.

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

<u>Asset Class</u>	<u>Target Allocation Percentage</u>	<u>Weighted Average Average Long-Term Expected Real Rate of Return</u>
Large cap equities	22.50 %	4.25%
Small/mid cap equities	7.50	4.50%
Total domestic equities	30.00	
Int'l equities (unhedged)	13.00	4.75%
Emerging int'l equities	7.00	6.25%
Total international equities	20.00	
Core bonds	5.00	0.64%
Short duration	2.00	-0.25%
Global multi-sector fixed income	11.00	1.71%
Absolute return fixed income	7.00	1.08%
Total fixed income	25.00	
Private equity	5.00	6.25%
Private debt	5.00	4.75%
Opportunistic	5.00	3.68%
Total alternative investments	15.00	
Real estate	10.00	3.25%
Total	100.00 %	

G. Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the pension plan's actuarial funding policy and as required by RSA 100-A:16. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25%, 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:

1% Decrease <u>(6.25%)</u>	Current Discount Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
\$ 9,609,081	\$ 7,222,114	\$ 5,221,762

I. Pension Plan Fiduciary Net Position

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

17. Other Post-Employment Benefits (GASB 75)

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, replaces the requirements of *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit

payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

A. Town OPEB Plan

All the following OPEB disclosures are based on a measurement date of January 1, 2018.

General Information about the OPEB Plan

Plan Description

The Town indirectly provides post-employment healthcare for retired employees through an implicit rate covered by current employees. Retirees of the Town who participate in this single-employer plan pay 100% of the healthcare premiums to participate in the Town's healthcare program. Since they are included in the same pool as active employees, the insurance rates are implicitly higher for current employees due to the age consideration. This increased rate is an implicit subsidy the Town pays for the retirees.

Benefits Provided

The Town provides medical and prescription drug insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

Plan Membership

At January 1, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	5
Active employees	<u>53</u>
Total	<u>58</u>

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.00% annually
Participant Salary Increases	3.50%, annually
Payroll Growth Rate	2.50%, annually
Discount rate	4.10%
2018 Medical Trend Rates:	
Pre-65	9.00%
Post 65	5.00%

The discount rate was based on Bond Buyer GO 20-year Municipal Bond Index at December 31, 2018.

Mortality rates were based on the *RPH-2018 Total Dataset Mortality Table* fully generational using *Scale MP-2018*.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of January 1, 2018.

Discount Rate

The discount rate used to measure the total OPEB liability was 4.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Total OPEB Liability

The Town's total OPEB liability of \$703,274 was measured as of December 31, 2018, and was determined by the entry age actuarial cost method as of January 1, 2018.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balances, beginning of year	\$ 712,758
Changes for the year:	
Service cost	35,932
Interest	25,387
Changes in assumptions or other inputs	(49,225)
Benefit payments	<u>(21,578)</u>
Net Changes	<u>(9,484)</u>
Balances, end of year	\$ <u><u>703,274</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.44% in 2017 to 4.10% in 2018. All other assumptions were the same as those used in the previous measurement.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using a discount rate that is

one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease <u>(3.10%)</u>	Current Discount Rate <u>(4.10%)</u>	1% Increase <u>(5.10%)</u>
\$ 779,411	\$ 703,274	\$ 635,747

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

1% <u>Decrease</u>	Current Healthcare Cost Trend Rates <u>Rates</u>	1% <u>Increase</u>
\$ 614,931	\$ 703,274	\$ 807,923

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the Town recognized an OPEB expense of \$56,255. At December 31, 2018, the Town reported deferred inflows of resources related to OPEB from the following sources:

	Deferred (Inflows) of <u>Resources</u>
Changes in assumptions	\$ <u>(44,161)</u>
Total	\$ <u><u>(44,161)</u></u>

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

Year Ended December 31:	Deferred (Inflows) of <u>Resources</u>
2019	\$ (5,064)
2020	(5,064)
2021	(5,064)
2022	(5,064)
2023	(5,064)
Thereafter	<u>(18,841)</u>
Total	\$ <u>(44,161)</u>

B. New Hampshire Retirement System Medical Subsidy Plan Description

General Information about the OPEB Plan

Plan Description

In addition to the OPEB plan discussed above, the Town participates in the New Hampshire Retirement System (NHRS) Medical Subsidy. The NHRS administers a cost-sharing, multiple-employer other post-employment benefit plan (OPEB Plan) for retiree health insurance subsidies. Benefit amounts and eligibility requirements are set by state law, and members are designated by type. The four membership types are Group II Police Officer and Firefighters, Group I Teachers, Group I Political Subdivision Employees and Group I State Employees. Collectively, they are referred to as the OPEB Plan.

Benefits Provided

The OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical subsidy is a payment made by NHRS to the former employer or their insurance administrator toward the cost of health insurance for a qualified retiree, his/her qualified spouse, and his/her certifiably dependent children with a disability who are living in the household and being cared for by the retiree. Under specific conditions, the qualified beneficiaries of members who die while in service may also be eligible for the medical subsidy. The eligibility requirements for receiving OPEB Plan benefits differ for Group I and Group II members. The monthly Medical Subsidy rates are:

1 Person - \$375.56
2 Person - \$751.12
1 Person Medicare Supplement - \$236.84
2 person Medicare Supplement - \$473.68

Actuarial Assumptions and Other Inputs

The Town's proportionate share of the NHRS Medical Subsidy as of December 31, 2018 is based upon an actuarial valuation performed as of June 30, 2017 (rolled forward to June 30, 2018) using a measurement date of June 30, 2018. The actuarial valuation used the following actuarial assumptions:

Price inflation	2.50% per year
Wage inflation	3.25% per year
Salary increases	5.60% average, including inflation
Investment rate of return	7.25%, net of pension plan investment expense, including inflation
Mortality	RP-2014 healthy annuitant and employee generational mortality tables for males and females with credibility adjustments, adjusted for fully generational mortality improvements using scale MP-2015, based on the last experience study.
Discount rate	7.25%

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study.

Net OPEB Liability, Expense, and Deferred Outflows and Inflows

The Town's proportionate share of the net NHRS Medical Subsidy (net OPEB liability) as of the measurement date of June 30, 2018 was \$749,666.

For the year ended December 31, 2018, the Town recognized an OPEB expense related to the NHRS Medical Subsidy of \$251,224. At December 31, 2018, the Town reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 36,724	\$ -
Differences between expected and actual experience	4,400	-
Change in proportion	50,936	-
Net difference between projected and actual OPEB investment earnings	<u>-</u>	<u>2,382</u>
Total	<u>\$ 92,060</u>	<u>\$ 2,382</u>

The \$36,724 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ending December 31, 2019.

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

Year Ended June 30:	Outflows/ (Inflows)
2019	\$ 54,593
2020	(743)
2021	(743)
2022	(153)
Total	<u>\$ 52,954</u>

Sensitivity of the Net NHRS Medical Subsidy OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
\$ 780,255	\$ 749,666	\$ 663,979

C. Consolidation of Total/Net OPEB Liabilities and Related Items and OPEB Expense

The following consolidates the Town's total OPEB liability, related outflows/inflows, OPEB expense, the Town's proportionate share of the NHRS Medical Subsidy net OPEB liability, related outflows/inflows and OPEB expense at December 31, 2018:

	Total/Net OPEB Liability	Total Deferred Outflows of Resources	Total Deferred Inflows of Resources	Total OPEB Expense
Town OPEB Plan	\$ 703,274	\$ -	\$ 44,161	\$ 56,255
Proportionate share of NHRS Medical Subsidy Plan	<u>749,666</u>	<u>92,060</u>	<u>2,382</u>	<u>251,224</u>
Total	<u>\$ 1,452,940</u>	<u>\$ 92,060</u>	<u>\$ 46,543</u>	<u>\$ 307,479</u>

18. Commitments and Contingencies

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

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

Abatements – there are several cases pending before the NH Board of Tax and Land Appeals and/or the Supreme Court in regard to alleged discrepancies in property assessments. According to the Town's counsel, the probable outcome of these cannot be determined at this time.

19. Beginning Net Position Restatement

The beginning (January 1, 2018) net position of the Town has been restated as follows:

Government-wide Financial Statements:	Governmental <u>Activities</u>
As previously reported for December 31, 2017	\$ 29,935,643
Net position restatement GASB 75 OPEB implementation	<u>(392,232)</u>
As restated for January 1, 2018	<u><u>\$ 29,543,411</u></u>

TOWN OF HOLLIS, NEW HAMPSHIRE
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)
DECEMBER 31, 2018
(Unaudited)

New Hampshire Retirement System						
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
December 31, 2018	June 30, 2018	0.1499857%	\$7,222,114	\$ 3,471,286	208.1%	64.73%
December 31, 2017	June 30, 2017	0.1557820%	\$7,661,348	\$ 3,472,859	220.6%	62.66%
December 31, 2016	June 30, 2016	0.1610000%	\$8,550,395	\$ 3,272,842	261.3%	58.30%
December 31, 2015	June 30, 2015	0.1580000%	\$6,275,289	\$ 3,351,251	187.3%	65.47%

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

See Independent Auditors' Report.

TOWN OF HOLLIS, NEW HAMPSHIRE

SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

DECEMBER 31, 2018

(Unaudited)

New Hampshire Retirement System						
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions in Relation to the Actuarially Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
December 31, 2018	June 30, 2018	\$ 703,704	\$ 703,704	\$ -	\$ 3,471,286	20.3%
December 31, 2017	June 30, 2017	\$ 682,171	\$ 682,171	\$ -	\$ 3,472,859	19.6%
December 31, 2016	June 30, 2016	\$ 610,064	\$ 610,064	\$ -	\$ 3,272,842	18.6%
December 31, 2015	June 30, 2015	\$ 620,215	\$ 620,215	\$ -	\$ 3,351,251	18.5%

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

See Independent Auditors' Report.

TOWN OF HOLLIS, NEW HAMPSHIRE
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY (GASB 75)

December 31, 2018
(Unaudited)

New Hampshire Retirement System Medical Subsidy						
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net OPEB Liability</u>	<u>Proportionate Share of the Net OPEB Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Net OPEB Liability</u>
December 31, 2018	June 30, 2018	0.16373757%	\$749,666	\$ 3,476,873	21.56%	7.53%
December 31, 2017	June 30, 2017	0.11139684%	\$509,344	\$ 3,472,859	14.67%	7.91%

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

See Independent Auditors' Report.

**TOWN OF HOLLIS, NEW HAMPSHIRE
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedules of Changes in the Total OPEB Liability and Contributions (GASB 75)

(Unaudited)

	<u>2018</u>
Total OPEB liability	
Service cost	\$ 35,932
Interest on unfunded liability - time value of money	25,387
Changes of assumptions	(49,225)
Benefit payments, including refunds of member contributions	<u>(21,578)</u>
Net change in total OPEB liability	(9,484)
Total OPEB liability - beginning	<u>712,758</u>
Total OPEB liability - ending	<u><u>\$ 703,274</u></u>

Does not include New Hampshire Retirement System Medical Subsidy.

Schedule of Contributions

	<u>2018</u>
Actuarially determined contribution	\$ (21,578) *
Contributions in relation to the actuarially determined contribution	<u>(21,578)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>

* Includes only the implicit subsidy and not an amount required to fully fund the plan overtime.

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

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

Additional Offices:

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

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

Independent Auditors' Report

To the Board of Selectmen
Town of Hollis, 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 and the aggregate remaining fund information of the Town of Hollis, New Hampshire (the Town), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated July 12, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Melanson Heath

July 12, 2019