

**TOWN OF NORTHWOOD,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

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

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PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, major fund, and aggregate remaining fund information of the Town of Northwood as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and aggregate remaining fund information of the Town of Northwood, as of December 31, 2017, and the respective changes in financial position and, the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information – Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3–8), Schedule of Funding Progress for Other Postemployment Benefit Plan (page 40), Schedule of the Town's Proportionate Share of Net Pension Liability (page 41), and Schedule of Town Contributions (page 42) 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

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

accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

August 20, 2018

*Plodzik & Sanderson
Professional Association*

**TOWN OF NORTHWOOD, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

As the management of the Town of Northwood (the "Town"), we offer the readers of the Town's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2017

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the 2017 fiscal year by \$6,161,763 (Net Position). Of this amount \$982,884 may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the Town's fund designation and fiscal policies.
- The Town's total net position increased by \$307,476.
- As of the close of the 2017 fiscal year, the Town governmental funds reported a combined ending balances of \$3,731,425.
- At the end of the 2017 fiscal year, unassigned fund balance for the general fund was \$1,448,751.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The Statement of Net Position presents information on all the Town's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

The governmental activities of the Town include general government and administration, public safety, development services, and cultural and recreation.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements— A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the Town can be divided into two categories— governmental funds and fiduciary funds.

Governmental Funds— Governmental funds are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on current sources and uses 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 the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for the governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government’s near term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains nine governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in the Fund Balance for the General Fund. Data from the other eight funds are combined into a single, aggregate presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages 48-49. The basic governmental fund financial statements can be found on pages 11-14 of this report.

Notes to the Financial Statements— The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-39 of this report.

GOVERNMENT – WIDE FINANCIAL ANALYSIS

As noted earlier, the net position may serve over time as a useful indicator of the government’s financial position. In the case of the Town of Northwood, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6,161,763 as of December 31, 2017.

The largest portion of the Town’s net position (76%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure). The Town uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending.

TOWN OF NORTHWOOD'S NET ASSETS

Governmental Activities	2017	2016 (as restated)
Current and Other Assets	8,312,668	7,382,181
Capital Assets	<u>4,760,017</u>	<u>4,805,539</u>
Total Assets	<u><u>13,072,685</u></u>	<u><u>12,187,720</u></u>
 Deferred Outflows of Resources	 461,410	 778,153
Long term liabilities outstanding	2,786,231	3,147,697
Other liabilities	<u>4,401,155</u>	<u>3,912,677</u>
Total Liabilities	<u><u>7,187,386</u></u>	<u><u>7,060,374</u></u>
 Deferred Inflows of Resources	 184,946	 51,212
Net Position:		
Invested in capital assets	4,638,417	4,552,370
Restricted	540,462	502,964
Unrestricted	<u>982,884</u>	<u>798,953</u>
Total Net Position	<u><u>6,161,763</u></u>	<u><u>5,854,287</u></u>

An additional portion of the Town’s net position (9%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position \$982,884 may be used to meet the government’s ongoing obligation to citizens and creditors.

As of December 31, 2017, the Town is able to report positive balances in all three categories of net position.

Analysis of the Town’s Operations— The following table provides a summary of the Towns operations for the year ended December 31, 2017.

TOWN OF NORTHWOOD'S CHANGES IN NET POSITION

Governmental Activities	<u>2017</u>	<u>2016</u>
Revenues		
Program revenues:		
Charges for services	\$339,092	\$243,646
Operating grants and contributions	189,853	106,149
General revenues:		
Property and other taxes	2,372,895	2,277,748
Licenses and permits	989,931	909,906
Grants and contributions	231,099	218,244
Interest and investment earnings	43,601	52,984
Miscellaneous	104,535	38,632
Contributions to permanent fund principal		2,100
Total revenues	<u>4,271,006</u>	<u>3,849,409</u>
Expenses		
General government	975,900	828,539
Public safety	1,607,917	1,711,376
Highways and streets	839,967	615,370
Health and welfare	57,913	63,472
Sanitation	181,016	210,214
Culture and recreation	299,743	278,962
Conservation	1074	
Economic development		434
Interest and fiscal charges	-	8,643
Total expenses	<u>3,963,530</u>	<u>3,717,010</u>
Increase in net position	307,476	132,399
Net Position, beginning of year, as restated	5,854,287	5,721,888
Net position, end of year	<u>\$6,161,763</u>	<u>\$5,854,287</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT FUNDS

Under GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Town has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned and Unassigned. Complete descriptions of these classifications may be found on page 25 of the notes to the Basic Financial Statements. One major example of the effects caused by implementation of GASB 54 is that the Expendable Trust Funds and Capital Reserve Funds are now reported as part of the General Fund.

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

The General Fund is the main operating fund of the Town. At the end of the current year, the General Fund had a fund balance of \$2,451,794 of which \$1,448,751 is unassigned. As referenced above, this fund balance now incorporates the Expendable Trust Funds and Capital Reserve Funds which amounts to \$590,721 as of December 31, 2017. There is also \$136,680 that has been assigned to pay for encumbrances.

Permanent funds (reported as a nonmajor governmental fund) account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the Town’s programs. At December 31, 2017, the balance of 399,743 was considered nonspendable as it represented the principal portion of endowments and the interest portion, \$133,955 was restricted. Other balances consist of \$745,933 committed for the Recreation Revolving Fund, Police Details Fund, Conservation Commission, Ambulance Replacement, Forest Maintenance, and Lagoon Fees. Additional restricted fund balance includes \$6,764 for library and \$10,329 for highway block grant funds received and not spent at year end.

General Fund Budgetary Highlights— The Town made three revisions to the original appropriations approved by the Board of Selectman and the Budget Committee at the annual Town Meeting. They are as follows:

- Article # 13 Police Cruiser purchase was reduced from \$32,000 to zero.
- Article # 21 Board of Selectmen shall increase to five member board.

CAPITAL ASSETS

The Town of Northwood’s investment in capital assets for its governmental activities as of December 31, 2017, amounts to \$4,760,017 (net of accumulated depreciation). The investment in capital assets includes land, buildings, equipment, improvements, and infrastructure.

Major capital asset events during the 2017 fiscal year included the following:

Road Improvements:

- \$19,260 Bow Lake Road Underdrain
- \$182,261 Paving & Reclaiming Jenness Pond Road
- \$86,672 Paving & Reclaiming Lower Deerfield Road
- \$49,222 Paving & Reclaiming Temperance Hill Road

TOWN OF NORTHWOOD'S CHANGES IN NET ASSETS

Governmental Activities	2017	2016
Land and Improvements	2,687,496	2,969,832
Buildings	891,155	871,155
Infrastructure	2,775,491	2,457,336
Furniture, Equipment, and Vehicles	2,660,792	2,390,816
Less: Accumulated Depreciation	<u>(4,254,917)</u>	<u>(3,883,600)</u>
Total Capital Assets, Net of Depreciation	<u><u>4,760,017</u></u>	<u><u>4,805,539</u></u>

Additional information on the Town's capital assets can be found in a Note 8 Summary of Significant Accounting Policies and Capital Assets on page 29.

DEBT ADMINISTRATION

At the end of the 2017 fiscal year, the Town of Northwood had capital leases in the amount of \$121,600. This consists of a five year capital lease for two defibrillators acquired in 2014, and a new Fire Truck acquired in 2015. See Note 13 in the Notes to Basic Financial Statements for a summary of all outstanding long-term obligations

COMPENSATED ABSENCES

As of December 31, 2017 the Town of Northwood has compensated absences in the amount of \$75,739. This amount represents earned but unused vacation and personal time and up to eighty hours of sick time. Additional information regarding compensated absences can be found on page 24 in the Notes to Basic Financial Statements.

ECONOMIC FACTORS

Property Taxes rates set in November 2017 was \$25.32 broken down as follows; \$4.77 Town, \$1.04 County, \$17.17 School District, and \$2.34 State Education Property Tax.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors, and creditors with general overview of the Town's finances. If you have any questions about this report or need additional information, contact the Finance Administrator, at 818 First New Hampshire Turnpike, Northwood, NH 03261, call (603) 942-5586 extension 206, or email finance@northwoodnh.org.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 5,862,225
Investments	1,068,020
Taxes receivables (net)	1,036,742
Account receivables (net)	66,141
Other receivables (net)	5,000
Intergovernmental receivable	1,070
Voluntary tax liens	14,921
Tax dedeed property, subject to resale	258,549
Capital assets:	
Land and construction in progress	2,097,048
Other capital assets, net of depreciation	2,662,969
Total assets	13,072,685
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	461,410
LIABILITIES	
Accrued salaries and benefits	77,079
Accrued interest payable	2,484
Intergovernmental payable	4,321,592
Long-term liabilities:	
Due within one year	72,692
Due in more than one year	2,713,539
Total liabilities	7,187,386
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - Property taxes	36,442
Unavailable revenue - Other	6,210
Related to pensions	142,294
Total deferred inflows of resources	184,946
NET POSITION	
Net investment in capital assets	4,638,417
Restricted	540,462
Unrestricted	982,884
Total net position	\$ 6,161,763

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

EXHIBIT B
TOWN OF NORTHWOOD, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended December 31, 2017

	Expenses	Program Revenues		Net (Expense) Revenue and Change In Net Position
		Charges for Services	Operating Grants and Contributions	
General government	\$ 975,900	\$ 18,384	\$ -	\$ (957,516)
Public safety	1,607,917	260,691	-	(1,347,226)
Highways and streets	839,967	-	189,853	(650,114)
Sanitation	181,016	47,701	-	(133,315)
Health	39,416	-	-	(39,416)
Welfare	18,497	307	-	(18,190)
Culture and recreation	299,743	12,009	-	(287,734)
Conservation	1,074	-	-	(1,074)
Total governmental activities	<u>\$ 3,963,530</u>	<u>\$ 339,092</u>	<u>\$ 189,853</u>	<u>(3,434,585)</u>
General revenues:				
Taxes:				
Property				2,178,013
Other				194,882
Motor vehicle permit fees				875,025
Licenses and other fees				114,906
Grants and contributions not restricted to specific programs				231,099
Unrestricted investment earnings				43,601
Miscellaneous				104,535
Total general revenues				<u>3,742,061</u>
Change in net position				307,476
Net position, beginning, as restated (see Note 20)				5,854,287
Net position, ending				<u>\$ 6,161,763</u>

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

EXHIBIT C-1
TOWN OF NORTHWOOD, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
December 31, 2017

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 5,111,856	\$ 743,605	\$ 5,855,461
Investments	-	460,334	460,334
Receivables, net of allowance for uncollectible:			
Taxes	1,061,742	-	1,061,742
Accounts	7,349	58,792	66,141
Other	5,000	-	5,000
Intergovernmental receivable	1,070	-	1,070
Interfund receivable	3,373	20,273	23,646
Voluntary tax liens	54,558	-	54,558
Voluntary tax liens reserved until collected	(39,637)	-	(39,637)
Tax deeded property, subject to resale	258,549	-	258,549
Restricted assets:			
Cash and cash equivalents	6,764	-	6,764
Investments	607,686	-	607,686
Total assets	<u>\$ 7,078,310</u>	<u>\$ 1,283,004</u>	<u>\$ 8,361,314</u>
LIABILITIES			
Accrued salaries and benefits	\$ 77,079	\$ -	\$ 77,079
Intergovernmental payable	4,321,592	-	4,321,592
Interfund payable	20,273	3,373	23,646
Total liabilities	<u>4,418,944</u>	<u>3,373</u>	<u>4,422,317</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - Property taxes	201,362	-	201,362
Unavailable revenue - Other	6,210	-	6,210
Total deferred inflows of resources	<u>207,572</u>	<u>-</u>	<u>207,572</u>
FUND BALANCES			
Nonspendable	258,549	399,743	658,292
Restricted	17,093	133,955	151,048
Committed	590,721	745,933	1,336,654
Assigned	136,680	-	136,680
Unassigned	1,448,751	-	1,448,751
Total fund balances	<u>2,451,794</u>	<u>1,279,631</u>	<u>3,731,425</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,078,310</u>	<u>\$ 1,283,004</u>	<u>\$ 8,361,314</u>

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

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

Amounts reported for governmental activities in the Statement of Net Position are different because:		
Total fund balances of governmental funds (Exhibit C-1)		\$ 3,731,425
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.		
Cost	\$ 9,014,934	
Less accumulated depreciation	<u>(4,254,917)</u>	
		4,760,017
Certain items are not current financial resources in the governmental funds, but instead are reported in the Statement of Net Position.		
Deferred outflows of resources related to pensions	\$ 461,410	
Deferred inflows of resources related to pensions	<u>(142,294)</u>	
		319,116
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (23,646)	
Payables	<u>23,646</u>	
		-
Other long-term assets are not available to pay for current period expenditures, and therefore, are reported as unavailable revenue in the funds.		
		164,920
Allowance for uncollectible property taxes that is recognized on a full accrual basis but not on the modified accrual basis.		
		(25,000)
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(2,484)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Capital leases	\$ 121,600	
Compensated absences	75,739	
Other postemployment benefits	28,147	
Net pension liability	<u>2,560,745</u>	
		<u>(2,786,231)</u>
Net position of governmental activities (Exhibit A)		<u><u>\$ 6,161,763</u></u>

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

EXHIBIT C-3
TOWN OF NORTHWOOD, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2017

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 2,343,894	\$ 19,880	\$ 2,363,774
Licenses and permits	989,931	-	989,931
Intergovernmental	420,952	-	420,952
Charges for services	59,573	279,519	339,092
Miscellaneous	99,465	48,671	148,136
Total revenues	<u>3,913,815</u>	<u>348,070</u>	<u>4,261,885</u>
EXPENDITURES			
Current:			
General government	900,164	16,865	917,029
Public safety	1,470,323	90,316	1,560,639
Highways and streets	616,359	-	616,359
Sanitation	171,496	-	171,496
Health	39,416	-	39,416
Welfare	18,497	-	18,497
Culture and recreation	282,733	14,981	297,714
Conservation	1,074	-	1,074
Capital outlay	311,323	-	311,323
Total expenditures	<u>3,811,385</u>	<u>122,162</u>	<u>3,933,547</u>
Excess of revenues over expenditures	<u>102,430</u>	<u>225,908</u>	<u>328,338</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	120,963	-	120,963
Transfers out	-	(120,963)	(120,963)
Total other financing sources (uses)	<u>120,963</u>	<u>(120,963)</u>	<u>-</u>
Net change in fund balances	223,393	104,945	328,338
Fund balances, beginning, as restated (see Note 20)	2,228,401	1,174,686	3,403,087
Fund balances, ending	<u>\$ 2,451,794</u>	<u>\$ 1,279,631</u>	<u>\$ 3,731,425</u>

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

EXHIBIT C-4
TOWN OF NORTHWOOD, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2017

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

Net change in fund balances of governmental funds (Exhibit C-3) \$ 328,338

Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capitalized capital outlay in the current period.

Capitalized capital outlay	\$ 325,795	
Depreciation expense	<u>(371,317)</u>	(45,522)

Transfers in and out between governmental funds are eliminated on the Statement of Activities.

Transfers in	\$ (120,963)	
Transfers out	<u>120,963</u>	-

Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds.

Change in deferred tax revenue	\$ (879)	
Change in allowance for uncollectible property taxes	<u>10,000</u>	9,121

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Repayment of capital leases		131,569
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Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Decrease in accrued interest expense	\$ 3,076	
Decrease in compensated absences payable	6,575	
Increase in postemployment benefits payable	(28,147)	
Net increase in net pension liability and deferred outflows and inflows related to pensions	<u>(97,534)</u>	(116,030)

Changes in net position of governmental activities (Exhibit B)	\$ 307,476
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EXHIBIT D
TOWN OF NORTHWOOD, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,290,323	\$ 2,290,323	\$ 2,353,015	\$ 62,692
Licenses and permits	760,343	760,343	989,931	229,588
Intergovernmental	321,928	399,042	420,952	21,910
Charges for services	39,218	39,218	59,573	20,355
Miscellaneous	43,498	63,498	67,252	3,754
Total revenues	3,455,310	3,552,424	3,890,723	338,299
EXPENDITURES				
Current:				
General government	844,751	844,751	846,917	(2,166)
Public safety	1,590,763	1,590,763	1,482,332	108,431
Highways and streets	661,012	661,012	636,527	24,485
Sanitation	157,732	157,732	169,975	(12,243)
Health	50,678	50,678	39,435	11,243
Welfare	27,260	27,260	18,497	8,763
Culture and recreation	285,108	285,108	257,889	27,219
Conservation	3,353	3,353	2,830	523
Economic development	2,504	2,504	-	2,504
Debt service:				
Interest	1	1	-	1
Capital outlay	266,529	363,643	272,054	91,589
Total expenditures	3,889,691	3,986,805	3,726,456	260,349
Excess (deficiency) of revenues over (under) expenditures	(434,381)	(434,381)	164,267	598,648
OTHER FINANCING SOURCES (USES)				
Transfers in	122,104	122,104	120,963	(1,141)
Transfers out	(205,616)	(205,616)	(205,616)	-
Total other financing sources (uses)	(83,512)	(83,512)	(84,653)	(1,141)
Net change in fund balances	\$ (517,893)	\$ (517,893)	79,614	\$ 597,507
Increase in nonspendable fund balance			(258,549)	
Increase in restricted fund balance			(10,329)	
Unassigned fund balance, beginning, as restated (see Note 20)			1,777,935	
Unassigned fund balance, ending			\$ 1,588,671	

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

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

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ -	\$ 14,593
Investments	40,300	573,763
Total assets	<u>40,300</u>	<u>588,356</u>
LIABILITIES		
Intergovernmental payable	-	573,763
Due to others	-	14,593
Total liabilities	<u>-</u>	<u>588,356</u>
NET POSITION		
Held in trust for specific purposes	<u>\$ 40,300</u>	<u>\$ -</u>

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

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

	Private Purpose Trust
ADDITIONS	
Investment income:	
Interest	\$ 372
DEDUCTIONS	
Scholarships	100
Change in net position	272
Net position, beginning	40,028
Net position, ending	\$ 40,300

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

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

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

The financial statements of the Town of Northwood, New Hampshire (the Town), have been prepared in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

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

1-A Reporting Entity

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

1-B Basis of Accounting, and Measurement Focus

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

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

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the Town are reported in two categories: 1) charges for services and 2) operating grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated.

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

Governmental fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of reimbursement based grants, which use a period of one year. Property taxes, licenses and permits, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

TOWN OF NORTHWOOD, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental fund:

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

Additionally, the Town reports the following fund types:

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

Permanent Fund - is used to record activity of legal trusts for which the interest on the corpus provides funds for the Town’s cemetery operations.

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

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

The Town also reports the following fiduciary funds:

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

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

1-C Cash and Cash Equivalents

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

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

1-D Restricted Assets

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

1-E Investments

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

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

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

TOWN OF NORTHWOOD, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the Town. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

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

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

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

Level 3 inputs are significant unobservable inputs.

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

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

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

1-F Receivables

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

1-G Capital Assets

Capital assets include property, plant, and equipment, infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), and intangible assets (i.e. easements) which are reported in the government-wide financial statements. The accounting and reporting treatment applied to capital assets associated with a fund are determined by the fund's measurement focus. General capital assets are assets of the Town as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the governmental activities column of the government-wide Statement of Net Position.

Capital assets 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 one year. Such assets are carried at historical cost or estimated historical cost. When the cost of the capital assets cannot be determined from available records, estimated historical cost is used. Donated capital assets received on or prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value.

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

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

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

	<u>Years</u>
Capital Asset Classes:	
Land improvements	20
Buildings and building improvements	5 - 50
Infrastructure	5 - 7
Machinery, vehicles, and equipment	5 - 20

1-H Interfund Activities

Interfund activities are reported as follows:

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

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

1-I Property Taxes

Property tax billings occur semi-annually and are based on the assessed inventory values as of April 1 of each year. Warrants for the year were issued on May 9, 2017 and October 26, 2017, and due on July 1, 2017 and December 5, 2017. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

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

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

For the New Hampshire education tax	\$ 468,351,605
For all other taxes	\$ 461,654,305

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

	<u>Per \$1,000 of Assessed Valuation</u>	<u>Property Taxes Assessed</u>
Municipal portion	\$4.77	\$ 2,235,452
School portion:		
State of New Hampshire	\$2.34	1,078,991
Local	\$17.17	8,040,649
County portion	\$1.04	487,899
Precinct portions:		
Northwood Cove	\$1.37	12,993
Total	<u>\$26.69</u>	<u>\$ 11,855,984</u>

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

1-J Accounts Payable

Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers as of December 31, 2017.

1-K Deferred Outflows/Inflows of Resources

Deferred outflows of resources, a separate financial statement element, represents a consumption of net position or fund balance that applies to a future period(s) and thus will not be recognized as an outflow of resources (expenses) until then.

Deferred inflows of resources, a separate financial statement element, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

1-L Long-term Obligations

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

1-M Compensated Absences

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

1-N Defined Benefit Pension Plan

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

The schedules are prepared by New Hampshire Retirement System, and are audited by the plan's independent auditors.

1-O Net Position/Fund Balances

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

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

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

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

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

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

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

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

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

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

In the general fund, the Town strives to maintain an unassigned fund balance of 6% of the general fund's annual budget including Town, School, and County appropriations.

1-P Use of Estimates

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

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

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

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

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. For the fiscal year 2017, \$468,352 of the beginning general fund unassigned fund balance was applied for this purpose and \$49,541 was voted from unassigned fund balance as a transfer to the capital reserve funds.

2-B Budgetary Reconciliation to GAAP Basis

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

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

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

Revenues and other financing sources:	
Per Exhibit D (budgetary basis)	\$ 4,011,686
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
To record miscellaneous income of the blended funds	32,213
Change in deferred tax revenue relating to 60-day revenue recognition	879
Change in allowance for uncollectible taxes	(10,000)
Per Exhibit C-3 (GAAP basis)	<u>\$ 4,034,778</u>
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 3,932,072
Adjustment:	
Basis differences:	
Encumbrances, beginning	88,347
Encumbrances, ending	(136,680)
GASB Statement No. 54:	
To record expenditures of the blended funds during the year	133,262
To eliminate transfers between general and blended funds	(205,616)
Per Exhibit C-3 (GAAP basis)	<u>\$ 3,811,385</u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

The Town's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held by the Town's agent in the Town's name. The FDIC currently insures the first \$250,000 of the Town's deposits at each financial institution, per case custodian. Deposit balances over \$250,000 are insured by the collateral. As of year-end, the carrying amount of the Town's deposits was \$5,876,818 and the bank balances totaled \$6,005,834. Petty cash totaled \$130.

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

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 5,862,225
Cash per Statement of Net Position - Fiduciary Fund (Exhibit E-1)	14,593
Total cash and cash equivalents	<u>\$ 5,876,818</u>

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

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

NOTE 4 – RESTRICTED ASSETS

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

Cash and cash equivalents:	
General fund:	
Library	\$ 6,764
Investments:	
General fund:	
Capital reserve funds	607,686
Total restricted assets	<u>\$ 614,450</u>

NOTE 5 – INVESTMENTS

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

	Valuation Measurement	Fair Value
	<u>Method</u>	<u> </u>
Investments type:		
Stocks, options and ETFs	Level 1	\$ 143,559
Mutual funds	Level 1	298,996
Fixed income	Level 2	69,128
New Hampshire Public Deposit Investment Pool	Level 2	1,170,400
Total fair value		<u>\$ 1,682,083</u>

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Town’s investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

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Concentration of Credit Risk – The Town places no limit on the amount it may invest in any one issuer. More than 5% of the Town’s investments are in stocks, options and EFTs, and mutual funds. These investments are 9%, and 18%, respectively, of the Town’s total investments. Investments in New Hampshire Public Deposit Investment Pool are excluded from the risk.

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 1,068,020
Investments per Statement of Net Position - Fiduciary Funds (Exhibit E-1)	<u>614,063</u>
Total investments	<u><u>\$ 1,682,083</u></u>

NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of December 31, 2017. The amount has been reduced by an allowance for an estimated uncollectible amount of \$25,000. Taxes receivable by year are as follows:

	<u>As reported on:</u>	
	<u>Exhibit A</u>	<u>Exhibit C-1</u>
Property:		
Levy of 2017	\$ 724,099	\$ 724,099
Unredeemed (under tax lien):		
Levy of 2016	209,795	209,795
Levy of 2015	115,423	115,423
Levies of 2014 and prior	12,425	12,425
Less: allowance for estimated uncollectible taxes	(25,000) *	-
Net taxes receivable	<u>\$ 1,036,742</u>	<u>\$ 1,061,742</u>

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

NOTE 7 – OTHER RECEIVABLES

Receivables at December 31, 2017, consisted of accounts (billings for police details, ambulance, and other user charges) and intergovernmental amounts arising from grants. Receivables are recorded on the Town’s financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

Receivables as of December 31, 2017 for the Town’s individual major fund and nonmajor funds in the aggregate including applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	<u>Nonmajor</u>	
	<u>Fund</u>	<u>Funds</u>	<u>Total</u>
Receivables:			
Accounts	\$ 7,349	\$ 114,454	\$ 121,803
Intergovernmental	1,070	-	1,070
Other	5,000	-	5,000
Liens	<u>14,921</u>	<u>-</u>	<u>14,921</u>
Gross receivables	28,340	114,454	142,794
Less: allowance for uncollectibles	-	(55,662)	(55,662)
Net total receivables	<u>\$ 28,340</u>	<u>\$ 58,792</u>	<u>\$ 87,132</u>

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NOTE 8 – CAPITAL ASSETS

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

	<u>Balance, beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, ending</u>
At cost:				
Not being depreciated:				
Land	\$ 2,097,048	\$ -	\$ -	\$ 2,097,048
Construction in progress	282,336	-	(282,336)	-
Total capital assets not being depreciated	<u>2,379,384</u>	<u>-</u>	<u>(282,336)</u>	<u>2,097,048</u>
Being depreciated:				
Land improvements	590,448	-	-	590,448
Buildings and building improvements	871,155	20,000	-	891,155
Infrastructure	2,457,336	318,155	-	2,775,491
Machinery, vehicles, and equipment	2,390,816	269,976	-	2,660,792
Total capital assets being depreciated	<u>6,309,755</u>	<u>608,131</u>	<u>-</u>	<u>6,917,886</u>
Total all capital assets	<u>8,689,139</u>	<u>608,131</u>	<u>(282,336)</u>	<u>9,014,934</u>
Less accumulated depreciation:				
Land improvements	(194,085)	(27,859)	-	(221,944)
Buildings and building improvements	(412,376)	(21,806)	-	(434,182)
Infrastructure	(1,612,329)	(205,991)	-	(1,818,320)
Machinery, vehicles, and equipment	(1,664,810)	(115,661)	-	(1,780,471)
Total accumulated depreciation	<u>(3,883,600)</u>	<u>(371,317)</u>	<u>-</u>	<u>(4,254,917)</u>
Net book value, capital assets being depreciated	<u>2,426,155</u>	<u>236,814</u>	<u>-</u>	<u>2,662,969</u>
Net book value, all capital assets	<u>\$ 4,805,539</u>	<u>\$ 236,814</u>	<u>\$ (282,336)</u>	<u>\$ 4,760,017</u>

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

General government	\$ 9,193
Public safety	103,702
Highways and streets	229,698
Sanitation	7,955
Culture and recreation	20,769
Total depreciation expense	<u>\$ 371,317</u>

NOTE 9 – INTERFUND BALANCES AND TRANSFERS

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor	\$ 3,373
Nonmajor	General	20,273
		<u>\$ 23,646</u>

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

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Interfund Transfers - The composition of interfund transfers for the year ended December 31, 2017 is as follows:

	<u>Transfers In:</u>
	General
	<u>Fund</u>
Transfers out:	
Nonmajor funds	<u>\$ 120,963</u>

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

NOTE 10 – ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds in the amount of \$77,079 in the general fund at December 31, 2017, were for salary and employee benefits.

NOTE 11 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments of \$4,895,355 at December 31, 2017 consist of the following:

General fund:	
Balance of assessment due to the Northwood School District	\$ 4,319,640
Balance of assessment due to the Northwood Cove Village District	397
Miscellaneous fees due to the State of New Hampshire	1,555
Total general fund	<u>4,321,592</u>
Agency fund:	
Balance of capital reserve funds held on behalf of:	
Northwood School District	427,823
Northwood Cove Village District	6,497
Northwood Ridge Water District	139,443
Total agency fund	<u>573,763</u>
Total intergovernmental payables due	<u>\$ 4,895,355</u>

NOTE 12 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows of resources of \$461,410 reported in the government wide activities at December 31, 2017 consist of amounts related to pensions.

Deferred inflows of resources are as follows:

	<u>Government-wide</u>	<u>General Fund</u>
Deferred property taxes not collected within 60 days of fiscal year-end	\$ -	\$ 164,920
Property taxes collected in advance	14,329	14,329
Collections on property tax agreements	22,113	22,113
Other	6,210	6,210
Amounts related to pensions	142,294	-
Total deferred inflows of resources	<u>\$ 184,946</u>	<u>\$ 207,572</u>

See Note 15 for further information on pension related deferrals.

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NOTE 13 – CAPITAL LEASE OBLIGATIONS

The Town has entered into certain capital lease agreements under which the related equipment will become the property of the Town when all the terms of the lease agreements are met.

	<u>Standard Interest Rate</u>	<u>Present Value of Remaining Payments as of December 31, 2017</u>
Capital lease obligations:		
Lifepak equipment	0.00%	\$ 13,381
Fire truck	3.42%	108,219
Total capital lease obligations		<u>\$ 121,600</u>

Leased equipment under capital leases, included in capital assets, is as follows:

	<u>Governmental Activities</u>
Equipment:	
Lifepak equipment	\$ 66,907
Fire truck	269,976
Total equipment	<u>336,883</u>
Less: accumulated depreciation	36,917
Total capital lease equipment	<u>\$ 299,966</u>

The annual requirements to amortize the capital leases payable as of December 31, 2017, including interest payments, are as follows:

<u>Fiscal Year Ending December 31,</u>	<u>Governmental Activities</u>
2018	\$ 70,294
2019	56,912
Total requirements	<u>127,206</u>
Less: interest	5,606
Present value of remaining payments	<u>\$ 121,600</u>

Amortization of lease equipment under capital assets is included with depreciation expense.

NOTE 14 – LONG-TERM LIABILITIES

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

	<u>Balance January 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2017</u>	<u>Due Within One Year</u>
Capital leases	\$ 253,169	\$ -	\$ (131,569)	\$ 121,600	\$ 66,577
Compensated absences	82,314	-	(6,575)	75,739	6,115
Pension related liability	2,885,807	-	(325,062)	2,560,745	-
Net other postemployment benefits	-	28,147	-	28,147	-
Total long-term liabilities	<u>\$ 3,221,290</u>	<u>\$ 28,147</u>	<u>\$ (463,206)</u>	<u>\$ 2,786,231</u>	<u>\$ 72,692</u>

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NOTE 15 – DEFINED BENEFIT PENSION PLAN

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

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

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

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

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

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

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

The contribution requirements for the fiscal years 2016, and 2017 were \$202,960, and \$198,051 respectively, which were paid in full in each year.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions: At December 31, 2017 the Town reported a liability of \$2,560,745 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of contributions to the pension plan relative to the projected contributions of all participating towns and school districts, actuarially determined.

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At June 30, 2017, the Town's proportion was 0.05206891% which was a decrease of 0.00220011% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Town recognized pension expense of \$287,488. At December 31, 2017 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 92,195	\$ 77,091
Changes in assumptions	257,133	-
Net difference between projected and actual investment earnings on pension plan investments	-	32,612
Differences between expected and actual experience	5,806	32,591
Contributions subsequent to the measurement date	106,276	-
Total	\$ 461,410	\$ 142,294

The \$106,276 reported as deferred outflows of resources related to pensions results from the Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending December 31,	
2018	\$ 62,990
2019	121,457
2020	87,630
2021	(59,237)
Thereafter	-
Totals	\$ 212,840

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

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

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

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

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Following is a table presenting target allocations and long-term rates of return for 2017:

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

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

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

Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
June 30, 2017	\$ 3,373,653	\$ 2,560,745	\$ 1,894,599

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

NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description and Annual OPEB Cost - The Town provides postemployment benefit options for health care to eligible retirees, terminated employees, and their dependents in accordance with the provisions of various employment contracts. The benefit levels, employee contributions, and employer contributions are governed by the Town's contractual agreements.

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The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans. GASB Statement No. 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements.

The Town has only partially funded (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2017:

Annual required contribution	\$ 32,894
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	32,894
Contributions made	(4,747)
Increase in net OPEB obligation	28,147
Net OPEB obligation - beginning of year	-
Net OPEB Obligation - end of year	\$ 28,147

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017, which represents the first year the Town of Northwood has contracted an actuarial firm to calculate the annual OPEB cost.

Fiscal Year Ended	Annual OPEB Contribution Cost	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
December 31, 2017	\$ 32,894	\$ 4,747	14.43%	\$ 28,147

As of January 1, 2017, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$306,736, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$306,736. The covered payroll (annual payroll of active employees covered by the plan) was \$686,524 during fiscal year 7, and the ratio of the UAAL to the covered payroll was 44.68%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for Other Postemployment Benefits Plan, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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In the January 1, 2017 actuarial valuation, the actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return per annum. The projected annual healthcare cost trend is 8% initially, reduced by decrements to an ultimate rate of 5.0% for years 2024 and later. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at December 31, 2017 was 29 years.

In addition, information about the actuarial methods and assumptions used in the valuation are as follows:

- Valuation Date:** January 1, 2017
Discount Rate: 4.00% pay-as-you-go.
Amortization Method: Level dollar amount over thirty (30) years on an open amortization period for pay-as-you-go.
Health Care Cost Trend Rates:

<u>Year</u>	<u>Rates</u>
1	8.00%
2	7.50%
3	7.00%
4	6.50%
5	6.00%
6	5.50%
7	5.00%
Ultimate	5.00%

- Inflation:** 2.6% per year, based on the 2017 Social Security Trustees Report.
Mortality Table: RP-2014 Total Dataset Mortality Table with generational projection using Scape MP-2015.
Turnover Rates: Illustrative turnover rates for General Employees are shown below:

<u>Age</u>	<u>Years of Service</u>	<u>Male</u>	<u>Female</u>
	0	23.00%	30.00%
	1	20.00%	22.00%
	2	15.00%	16.00%
	4	12.00%	12.00%
	4	10.00%	8.00%
25	5	7.20%	7.20%
30		7.20%	7.20%
35		5.04%	5.04%
40		5.04%	5.04%
45		5.04%	5.04%
50		3.96%	3.96%
55		3.60%	3.60%
60		3.60%	3.60%

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NOTE 17 – ENCUMBRANCES

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at December 31, 2017 and are as follows:

General fund:	
General government:	\$ 29,929
Public safety	12,009
Highways and streets	20,168
Sanitation	19,456
Health	19
Culture and recreation	4,265
Conservation	1,756
Capital outlay	49,078
Total encumbrances	<u><u>\$ 136,680</u></u>

NOTE 18 – GOVERNMENTAL ACTIVITIES NET POSITION

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

Net investment in capital assets:	
Net book value, all capital assets	\$ 4,760,017
Less:	
Capital leases payable	<u>(121,600)</u>
Total net investment in capital assets	<u>4,638,417</u>
Restricted net position:	
Perpetual care - nonexpendable	399,743
Perpetual care - expendable	133,955
Library	<u>6,764</u>
Total restricted net position	<u>540,462</u>
Unrestricted	<u>982,884</u>
Total net position	<u><u>\$ 6,161,763</u></u>

NOTE 19 – GOVERNMENTAL FUND BALANCES

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

	General Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable:			
Tax deeded property	\$ 258,549	\$ -	\$ 258,549
Permanent fund - principal balance	-	399,743	399,743
Total nonspendable fund balance	<u>258,549</u>	<u>399,743</u>	<u>658,292</u>
Restricted:			
Library	6,764	-	6,764
Highway block grant	10,329	-	10,329
Permanent - income balance	-	133,955	133,955
Total restricted fund balance	<u>17,093</u>	<u>133,955</u>	<u>151,048</u>

(Continued)

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

Governmental fund balances continued:

	General Fund	Nonmajor Funds	Total Governmental Funds
Committed:			
Expendable trust	590,721	-	590,721
Conservation Commission	-	96,749	96,749
Recreation	-	24,096	24,096
Ambulance	-	507,465	507,465
Lagoon fees	-	15,792	15,792
Police detail	-	98,383	98,383
Forest maintenance	-	3,448	3,448
Total committed fund balance	<u>590,721</u>	<u>745,933</u>	<u>1,336,654</u>
Assigned:			
Encumbrances	<u>136,680</u>	-	<u>136,680</u>
Unassigned	<u>1,448,751</u>	-	<u>1,448,751</u>
Total governmental fund balances	<u>\$ 2,451,794</u>	<u>\$ 1,279,631</u>	<u>\$ 3,731,425</u>

NOTE 20 – PRIOR PERIOD ADJUSTMENTS

Net position/fund balance at January 1, 2017 was restated to give retroactive effect to the following prior period adjustments:

	Government-wide Statements	General Fund (GAAP Basis)	General Fund (Budgetary)	Other Governmental Funds
To adjust:				
Library fund now blended in the general fund per GASB No. 54	\$ -	\$ 15,670	\$ -	\$ (15,670)
Calculation of deferred inflows of resources for taxes not collected within 60 days of year-end	-	924,482	-	-
Allowance for uncollectible taxes not included in GAAP basis statements	-	35,000	-	-
Recording of deferred inflows of resources and deposits payable for property tax payment agreements	31,177	-	31,177	-
Net position/fund balance, as previously reported	5,823,110	1,253,249	1,746,758	1,190,356
Net position/fund balance, as restated	<u>\$ 5,854,287</u>	<u>\$ 2,228,401</u>	<u>\$ 1,777,935</u>	<u>\$ 1,174,686</u>

NOTE 21 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2017, the Town was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pool, currently operating as common risk management and insurance programs for member Towns and cities.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from January 1, 2017 to December 31, 2017 by Primex³, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the Town of Northwood billed and paid for the year ended December 31, 2017 was \$39,056 for workers' compensation and \$51,743 for property/liability.

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

NOTE 22 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through August 20, 2018, the date the December 31, 2017 financial statements were available to be issued, and no events occurred that require recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT F
TOWN OF NORTHWOOD, NEW HAMPSHIRE
Schedule of Funding Progress for Other Postemployment Benefit Plan
For the Fiscal Year Ended December 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
January 1, 2017	\$ -	\$ 306,736	\$ 306,736	0.00%	\$ 686,524	44.68%

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

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

Fiscal Year End	Valuation Date	Town's Proportion of Net Pension Liability	Proportionate Share of Net Pension Liability	Covered Payroll	Town Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
December 31, 2017	June 30, 2017	0.05206891%	\$ 2,560,745	\$ 1,587,143	161.34%	62.66%
December 31, 2016	June 30, 2016	0.05426902%	\$ 2,885,807	\$ 989,590	291.62%	58.30%
December 31, 2015	June 30, 2015	0.05137422%	\$ 2,035,204	\$ 885,212	229.91%	65.47%
December 31, 2014	June 30, 2014	0.05122870%	\$ 1,922,913	\$ 852,611	225.53%	66.32%
December 31, 2013	June 30, 2013	0.04988369%	\$ 2,146,887	\$ 824,686	260.33%	59.81%

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

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

Fiscal Year End	Valuation Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2017	June 30, 2017	\$ 190,751	\$ 190,751	\$ -	\$ 1,587,143	12.02%
December 31, 2016	June 30, 2016	\$ 194,326	\$ 194,326	\$ -	\$ 989,590	19.64%
December 31, 2015	June 30, 2015	\$ 184,539	\$ 184,539	\$ -	\$ 885,212	20.85%
December 31, 2014	June 30, 2014	\$ 169,515	\$ 169,515	\$ -	\$ 852,611	19.88%
December 31, 2013	June 30, 2013	\$ 143,523	\$ 143,523	\$ -	\$ 824,686	17.40%

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

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

Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

This schedule is presented to show information for 10 years. However, information is only presented for years which information is available.

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

As required by GASB Statement No. 68, and as amended by GASB Statement No. 71, Exhibits G and H represent the actuarial determined costs associated with the Town's pension plan at December 31, 2017, and preceding four years.

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	22 Years beginning July 1, 2017 (30 years beginning July 1, 2009)
Asset Valuation Method	5-Year smooth market for funding purposes
Price Inflation	2.5% per year
Wage Inflation	3.25% per year
Salary Increases	5.6% Average, including inflation
Municipal Bond Rate	3.56% per year
Investment Rate of Return	7.25% per year
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2015.
Mortality	RP-2014 Employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on the last experience study.

Other Information:

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

COMBINING AND INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
TOWN OF NORTHWOOD, NEW HAMPSHIRE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2017

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 2,159,428	\$ 2,178,013	\$ 18,585
Land use change	39,060	19,880	(19,180)
Yield	3,429	7,061	3,632
Excavation	509	509	-
Payment in lieu of taxes	9,643	7,036	(2,607)
Interest and penalties on taxes	78,254	140,516	62,262
Total from taxes	<u>2,290,323</u>	<u>2,353,015</u>	<u>62,692</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	142	198	56
Motor vehicle permit fees	675,000	875,025	200,025
Building permits	18,200	31,213	13,013
Other	67,001	83,495	16,494
Total from licenses, permits, and fees	<u>760,343</u>	<u>989,931</u>	<u>229,588</u>
Intergovernmental:			
State:			
Meals and rooms distribution	216,859	216,859	-
Highway block grant	179,523	189,853	10,330
State and federal forest land reimbursement	349	349	-
Other	2,310	13,891	11,581
Federal:			
Other	1	-	(1)
Total from intergovernmental	<u>399,042</u>	<u>420,952</u>	<u>21,910</u>
Charges for services:			
Income from departments	39,218	59,573	20,355
Miscellaneous:			
Sale of municipal property	19,150	41,900	22,750
Interest on investments	911	2,762	1,851
Fines and forfeits	1,370	464	(906)
Other	42,067	22,126	(19,941)
Total from miscellaneous	<u>63,498</u>	<u>67,252</u>	<u>3,754</u>
Other financing sources:			
Transfers in	122,104	120,963	(1,141)
Total revenues and other financing sources	3,674,528	<u>\$ 4,011,686</u>	<u>\$ 337,158</u>
Unassigned fund balance used to reduce tax rate	468,352		
Amounts voted from fund balance	49,541		
Total revenues, other financing sources, and use of fund balance	<u>\$ 4,192,421</u>		

SCHEDULE 2
TOWN OF NORTHWOOD, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2017

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 306,271	\$ 311,972	\$ 6,828	\$ (12,529)
Election and registration	-	10,293	10,217	-	76
Financial administration	-	299,411	300,570	5,468	(6,627)
Legal	-	15,001	14,937	-	64
Personnel administration	-	56,970	49,057	-	7,913
Planning and zoning	-	43,822	35,438	-	8,384
General government buildings	-	55,929	39,881	15,678	370
Cemeteries	-	3,100	1,020	1,955	125
Insurance, not otherwise allocated	-	51,701	51,743	-	(42)
Advertising and regional associations	-	2,253	2,153	-	100
Total general government	-	844,751	816,988	29,929	(2,166)
Public safety:					
Police	-	903,431	815,618	3,157	84,656
Fire	-	651,751	625,700	7,880	18,171
Building inspection	-	32,659	25,371	38	7,250
Emergency management	-	2,922	3,634	934	(1,646)
Total public safety	-	1,590,763	1,470,323	12,009	108,431
Highways and streets:					
Public works garage	-	206,464	204,922	-	1,542
Highways and streets	-	454,547	411,437	20,168	22,942
Street lighting	-	1	-	-	1
Total highways and streets	-	661,012	616,359	20,168	24,485
Sanitation:					
Administration	-	66,632	56,922	19,456	(9,746)
Solid waste disposal	-	91,100	93,597	-	(2,497)
Total sanitation	-	157,732	150,519	19,456	(12,243)
Health:					
Administration	-	7,977	7,282	19	676
Pest control	-	13,646	5,689	-	7,957
Health agencies	-	29,055	26,445	-	2,610
Total health	-	50,678	39,416	19	11,243
Welfare:					
Administration	-	16,259	14,967	-	1,292
Intergovernmental welfare payments	-	11,001	3,530	-	7,471
Total welfare	-	27,260	18,497	-	8,763
Culture and recreation:					
Parks and recreation	-	67,134	49,547	110	17,477
Library	-	204,628	194,974	4,155	5,499
Patriotic purposes	-	1,800	1,500	-	300
Other	-	11,546	7,603	-	3,943
Total culture and recreation	-	285,108	253,624	4,265	27,219
Conservation	-	3,353	1,074	1,756	523
Economic development	-	2,504	-	-	2,504

(Continued)

SCHEDULE 2 (Continued)
TOWN OF NORTHWOOD, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2017

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Debt service:					
Interest on tax anticipation notes	-	1	-	-	1
Capital outlay	88,347	363,643	311,323	49,078	91,589
Other financing uses:					
Transfers out	-	205,616	205,616	-	-
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 88,347</u>	<u>\$ 4,192,421</u>	<u>\$ 3,883,739</u>	<u>\$ 136,680</u>	<u>\$ 260,349</u>

SCHEDULE 3
TOWN OF NORTHWOOD, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance
For the Fiscal Year Ended December 31, 2017

Unassigned fund balance, beginning, as restated (see Note 20) (Non-GAAP Budgetary Basis)		\$ 1,777,935
Changes:		
Unassigned fund balance used to reduce 2017 tax rate		(468,352)
Amounts voted from fund balance		(49,541)
2017 Budget summary:		
Revenue surplus (Schedule 1)	\$ 337,158	
Unexpended balance of appropriations (Schedule 2)	<u>260,349</u>	
2017 Budget surplus		597,507
Increase in nonspendable fund balance		(258,549)
Increase in restricted fund balance		<u>(10,329)</u>
Unassigned fund balance, ending (Non-GAAP Budgetary Basis)		1,588,671
Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis:		
To record deferred property taxes not collected within 60 days of the fiscal year-end, not recognized on a budgetary basis		(164,920)
Elimination of the allowance for uncollectible taxes		<u>25,000</u>
Unassigned fund balance, ending, GAAP basis (Exhibit C-1)		<u><u>\$ 1,448,751</u></u>

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

	Special Revenue Funds							Total
	Conservation Commission	Recreation Revolving	Ambulance Replacement	Lagoon Fees	Police Special Details	Forest Maintenance	Permanent Fund	
ASSETS								
Cash and cash equivalents	\$ 76,869	\$ 24,096	\$ 454,535	\$ 15,792	\$ 94,301	\$ 3,448	\$ 74,564	\$ 743,605
Investments	-	-	-	-	-	-	460,334	460,334
Accounts receivable, net of allowance for uncollectible	-	-	52,930	-	5,862	-	-	58,792
Interfund receivable	19,880	-	-	-	393	-	-	20,273
Total assets	<u>\$ 96,749</u>	<u>\$ 24,096</u>	<u>\$ 507,465</u>	<u>\$ 15,792</u>	<u>\$ 100,556</u>	<u>\$ 3,448</u>	<u>\$ 534,898</u>	<u>\$ 1,283,004</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Interfund payable	\$ -	\$ -	\$ -	\$ -	\$ 2,173	\$ -	\$ 1,200	\$ 3,373
Fund balances:								
Nonspendable	-	-	-	-	-	-	399,743	399,743
Restricted	-	-	-	-	-	-	133,955	133,955
Committed	96,749	24,096	507,465	15,792	98,383	3,448	-	745,933
Total fund balances	<u>96,749</u>	<u>24,096</u>	<u>507,465</u>	<u>15,792</u>	<u>98,383</u>	<u>3,448</u>	<u>533,698</u>	<u>1,279,631</u>
Total liabilities and fund balances	<u>\$ 96,749</u>	<u>\$ 24,096</u>	<u>\$ 507,465</u>	<u>\$ 15,792</u>	<u>\$ 100,556</u>	<u>\$ 3,448</u>	<u>\$ 534,898</u>	<u>\$ 1,283,004</u>

SCHEDULE 5
TOWN OF NORTHWOOD, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2017

	Special Revenue Funds							Total
	Conservation Commission	Recreation Revolving	Ambulance Replacement	Lagoon Fees	Police Special Details	Forest Maintenance	Permanent Fund	
Revenues:								
Taxes	\$ 19,880	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,880
Charges for services	-	12,009	138,766	14,700	114,044	-	-	279,519
Miscellaneous	167	88	618	26	165	8	47,599	48,671
Total revenues	<u>20,047</u>	<u>12,097</u>	<u>139,384</u>	<u>14,726</u>	<u>114,209</u>	<u>8</u>	<u>47,599</u>	<u>348,070</u>
Expenditures:								
Current:								
General government	-	-	-	-	-	-	16,865	16,865
Public safety	-	-	273	-	90,043	-	-	90,316
Culture and recreation	-	14,981	-	-	-	-	-	14,981
Total expenditures	<u>-</u>	<u>14,981</u>	<u>273</u>	<u>-</u>	<u>90,043</u>	<u>-</u>	<u>16,865</u>	<u>122,162</u>
Excess (deficiency) of revenues over (under) expenditures	<u>20,047</u>	<u>(2,884)</u>	<u>139,111</u>	<u>14,726</u>	<u>24,166</u>	<u>8</u>	<u>30,734</u>	<u>225,908</u>
Other financing uses:								
Transfers out	-	-	(104,388)	(16,575)	-	-	-	(120,963)
Net change in fund balances	20,047	(2,884)	34,723	(1,849)	24,166	8	30,734	104,945
Fund balances, beginning, as restated (see Note 20)	76,702	26,980	472,742	17,641	74,217	3,440	502,964	1,174,686
Fund balances, ending	<u>\$ 96,749</u>	<u>\$ 24,096</u>	<u>\$ 507,465</u>	<u>\$ 15,792</u>	<u>\$ 98,383</u>	<u>\$ 3,448</u>	<u>\$ 533,698</u>	<u>\$ 1,279,631</u>