

**PENACOOK AND BOSCAWEN WATER PRECINCT**  
**Financial Statements**  
**For the Year Ended December 31, 2017**  
**and**  
**Independent Auditor's Report**

**PENACOOK AND BOSCAWEN WATER PRECINCT**

**FINANCIAL STATEMENTS**

**December 31, 2017**

**TABLE OF CONTENTS**

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT	
MANAGEMENT'S DISCUSSION AND ANALYSIS	i-iii
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Position	1
Statement of Revenues, Expenses and Changes in Net Position	2
Statement of Cash Flows	3
NOTES TO BASIC FINANCIAL STATEMENTS	4-14
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Changes in the Precinct's Proportionate Share of the Net Pension Liability	15
Schedule of Precinct Contributions	16
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION	17

## **INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Penacook and Boscawen Water Precinct

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Penacook and Boscawen Water Precinct, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Precinct'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 an opinion 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 opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Penacook and Boscawen Water Precinct, as of December 31, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Note 8 to the financial statements, in 2017 the Precinct changed its accounting policy related to accounting for inventory. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the Precinct's proportionate share of the net pension liability, and the schedule of Precinct contributions, on pages i-iii and 15-17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Vachon Cleary & Company PC*

Manchester, New Hampshire  
March 8, 2018

**PENACOOK AND BOSCAWEN WATER PRECINCT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Year Ended December 31, 2017

Presented herewith please find the Management Discussion & Analysis Report for the Penacook and Boscawen Water Precinct for the year ended December 31, 2017. The responsibility for accuracy of the data, the completeness and fairness of this documentation (including all disclosures) rests with management. To the best of our knowledge and belief, the data contained herein is accurate in all material aspects. This report and its content have been designed to fairly present the Precinct's financial position, including the results of operations of the Precinct. All the disclosures necessary to enable and to assist the reader in acquiring an accurate understanding of the Precinct's financial activities have been included.

The Precinct's management is responsible for establishing accounting and internal control structures designed to ensure that the physical, data, informational, intellectual, and human resource assets of the Precinct are protected from loss, theft and misuse, and to ensure that adequate accounting information is maintained and reported in conformity with generally accepted accounting principles (GAAP). Management also strives to ensure that these assets are put to good and effective use. The internal control structure is designed to provide reasonable assurances that these objectives are attained.

The Penacook and Boscawen Water Precinct is an independent municipal water precinct operating in the Town of Boscawen and in the Penacook section of the City of Concord, New Hampshire. The Precinct is governed by a three-member Board of Water Commissioners, who are elected by the residents within the boundaries of the Precinct. The Precinct's primary function is to provide clean water services for residential, commercial, and mercantile entities within its boundaries. The Precinct is responsible for protecting, improving, maintaining and expanding the existing water distribution system.

## **FINANCIAL REPORTING**

### **Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position**

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Precinct as a whole and about its activities. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources of the Precinct using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report the Precinct's net position and changes in them. Net position is the difference between assets plus deferred outflows of resources, less liabilities plus deferred inflows of resources. Over time, increases or decreases in the Precinct's net position is one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the Precinct's customer base and condition of the Precinct's infrastructure.

### **Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**PENACOOK AND BOSCAWEN WATER PRECINCT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended December 31, 2017

**Statements of Net Position**

Net position of the Penacook and Boscawen Water Precinct as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Capital and other assets:		
Capital assets, net	\$ 3,050,999	\$ 3,175,062
Other assets	<u>588,495</u>	<u>448,213</u>
Total assets	<u>3,639,494</u>	<u>3,623,275</u>
Deferred Outflows of Resources:		
Deferred outflows related to pension	<u>13,743</u>	<u>38,391</u>
Total deferred outflows of resources	<u>13,743</u>	<u>38,391</u>
Long-term and other liabilities:		
Long-term liabilities	1,528,761	1,783,288
Other liabilities	<u>14,024</u>	<u>26,582</u>
Total liabilities	<u>1,542,785</u>	<u>1,809,870</u>
Deferred Inflows of Resources:		
Deferred inflows related to pension	<u>60,321</u>	<u>20,020</u>
Total deferred inflows of resources	<u>60,321</u>	<u>20,020</u>
Net position:		
Net investment in capital assets	1,617,029	1,562,553
Unrestricted	<u>433,102</u>	<u>269,223</u>
Total net position	<u>\$ 2,050,131</u>	<u>\$ 1,831,776</u>

**Statements of Revenues, Expenses and Changes in Net Position**

Changes in net position for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 734,076	\$ 798,874
Operating expenses	<u>509,719</u>	<u>545,507</u>
Operating income (loss)	<u>224,357</u>	<u>253,367</u>
Net non-operating (expenses)	(42,466)	(51,249)
Capital contributions	<u>36,464</u>	<u>37,299</u>
Change in net position	218,355	239,417
Net position, beginning of year, as restated	<u>1,831,776</u>	<u>1,592,359</u>
Net position, end of year	<u>\$ 2,050,131</u>	<u>\$ 1,831,776</u>

**PENACOOK AND BOSCAWEN WATER PRECINCT**  
**Statement of Net Position**  
December 31, 2017

	<u>2017</u>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 200,162
Investments	95,421
Accounts receivable, net	182,310
Unbilled water charges	34,652
Due from other governments	75,950
Total Current Assets	<u>588,495</u>
Noncurrent Assets:	
Capital Assets:	
Non-depreciable capital assets	135,756
Depreciable capital assets, net	<u>2,915,243</u>
Total Noncurrent Assets	<u>3,050,999</u>
Total Assets	<u>3,639,494</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pension	<u>13,743</u>
Total Deferred Outflows of Resources	<u>13,743</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accrued expenses	13,129
Deposits payable	895
Current portion of note payable	34,920
Current portion of bonds payable	<u>125,695</u>
Total Current Liabilities	<u>174,639</u>
Noncurrent Liabilities:	
Note payable, net of current portion	123,108
Bonds payable, net of current portion	1,150,247
Net pension liability	<u>94,791</u>
Total Noncurrent Liabilities	<u>1,368,146</u>
Total Liabilities	<u>1,542,785</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pension	<u>60,321</u>
Total Deferred Inflows of Resources	<u>60,321</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,617,029
Unrestricted	<u>433,102</u>
Total Net Position	<u>\$ 2,050,131</u>

*See accompanying notes to the basic financial statements*

**PENACOOK AND BOSCAWEN WATER PRECINCT**  
**Statement of Revenues, Expenses and Changes in Net Position**  
For the Year Ended December 31, 2017

	<u>2017</u>
Operating revenues:	
Water charges	\$ 727,405
Miscellaneous	<u>6,671</u>
Total operating revenues	<u>734,076</u>
Operating expenses:	
Cost of operations	331,468
Administration	47,844
Depreciation	<u>130,407</u>
Total operating expenses	<u>509,719</u>
Operating income	<u>224,357</u>
Non-operating revenues (expenses):	
Interest income	3,090
Interest expense	<u>(45,556)</u>
Net non-operating revenues (expenses)	<u>(42,466)</u>
Income before capital contributions	181,891
Capital contributions	<u>36,464</u>
Change in net position	218,355
Net Position at beginning of year, as restated	<u>1,831,776</u>
Net Position at end of year	<u>\$ 2,050,131</u>

*See accompanying notes to the basic financial statements*

**PENACOOK AND BOSCAWEN WATER PRECINCT**

**Statement of Cash Flows**

For the Year Ended December 31, 2017

	<u>2017</u>
Cash flows from operating activities:	
Cash received from customers	\$ 712,640
Other operating cash receipts	6,671
Cash paid to suppliers	(328,902)
Cash paid to employees	<u>(64,162)</u>
Net cash provided by operating activities	<u>326,247</u>
Cash flows from capital and related financing activities:	
Principal paid on bonds and notes	(155,219)
Interest paid on bonds and notes	(59,168)
Capital contributions	38,410
Purchases of capital assets	<u>(6,344)</u>
Net cash used for capital and related financing activities	<u>(182,321)</u>
Cash flows from investing activities:	
Interest on investments	2,549
Purchase of investments	<u>(100,000)</u>
Net cash used for investing activities	<u>(97,451)</u>
Net increase in cash and cash equivalents	46,475
Cash and cash equivalents at beginning of year	<u>153,687</u>
Cash and cash equivalents at end of year	<u>\$ 200,162</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 224,357
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	130,407
Change in deferred outflows related to pension	24,648
Change in deferred inflows related to pension	40,301
Changes in assets and liabilities:	
Accounts receivable, net	(8,569)
Unbilled water charges	2,221
Accrued expenses	(2,713)
Deposits payable	(8,417)
Net pension liability	<u>(75,988)</u>
	<u>\$ 326,247</u>
Non-cash transactions affecting financial position:	
Principal forgiveness on debt	\$ 11,136
Amortization on bond premium	<u>12,184</u>
	<u>\$ 23,320</u>

*See accompanying notes to the basic financial statements*

**PENACOOK AND BOSCAWEN WATER PRECINCT  
NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended December 31, 2017

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Penacook and Boscawen Water Precinct conform to accounting principles generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of significant accounting policies.

***Financial Reporting Entity***

The Penacook and Boscawen Water Precinct (the “Precinct”) was incorporated in 1891 to provide water for domestic, mercantile and industrial usage in portions of the Town of Boscawen, New Hampshire and the Penacook section of the City of Concord, New Hampshire. The Precinct is organized as a Village District (special purpose district) under the laws of the State of New Hampshire and operates under the direction of an elected Board of Commissioners.

***Basis of Accounting***

The financial statements are presented on the accrual basis of accounting, wherein revenues are recognized when earned and expenses are recognized when incurred.

***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

***Assets, Liabilities, and Net Position***

*Cash and Cash Equivalents* - For the purpose of the Statement of Cash Flows, cash and cash equivalents are comprised of demand deposits and cash on hand.

*Accounts Receivable* – The Precinct uses the allowance method for accounts receivable, whereby, estimated bad debts are reserved in an allowance account. At December 31, 2017, accounts receivable for user fees is recorded net of an allowance for estimated uncollectible accounts of \$25,000.

*Due from Other Governments* – Due from other governments consist of the Precinct’s Expendable Trust Fund held by the Town of Boscawen, New Hampshire Trustees of Trust Funds in the amount of \$75,950.

*Capital Assets* – Capital assets are recorded at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. Improvements are capitalized; costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. Interest incurred during the construction phase of capital assets is also capitalized. All reported capital assets except for land are depreciated. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives are as follows:

**PENACOOK AND BOSCAWEN WATER PRECINCT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2017

	<u>Years</u>
Building and structures	40
Water plant	30-50
Distribution infrastructure	20-50
Equipment	3-10

Bond Premium - Bond premiums are amortized as a component of interest expense over the life of the related bond using the effective interest rate method. Bonds payable are reported in the accompanying financial statements gross of any applicable unamortized bond premiums.

Net Position – Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. The net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Precinct or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

The Precinct’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

***Pension***

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

***Revenues and Expenses***

Operating Revenues and Expenses – Operating revenues and expenses for the Precinct are those that result from providing services and producing and delivering goods in connection with its principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. It also includes all revenues and expenses not related to capital and related financing or investing activities.

Capital Contributions – Funds received from other governments for the purpose of constructing assets are recorded as capital contributions.

**PENACOOK AND BOSCAWEN WATER PRECINCT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2017

**NOTE 2—DEPOSITS AND INVESTMENTS**

Deposits and investments as of December 31, 2017, are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 200,162
Investments	<u>95,421</u>
	<u>\$ 295,583</u>

Deposits and investments as of December 31, 2017 consist of the following:

Cash on hand	\$ 100
Deposits with financial institutions	200,062
State investment pool	<u>95,421</u>
	<u>\$ 295,583</u>

The Precinct requires that deposits and investments be made in New Hampshire based financial institutions that are participants in one of the federal depository insurance programs. The Precinct limits its deposits and investments to demand deposits, money market accounts and certificates of deposit in accordance with New Hampshire State law (RSA 41:29) or the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool in accordance with New Hampshire State law (RSA 383:22).

***Credit Risk***

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Precinct does not have an investment policy for assurance against credit risk. As of December 31, 2017, Precinct investments totaling \$95,421 in the NHPDIP, a state investment pool, are rated AAAM.

***Investment in NHPDIP***

The Precinct is a voluntary participant in the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool. The NHPDIP is not registered with the United States Securities and Exchange Commission as an investment company. The NHPDIP was created by State law and is administered by a public body of state, local and banking officials. Financial statements for the NHPDIP can be accessed through the NHPDIP's website at [www.NHPDIP.com](http://www.NHPDIP.com).

The Precinct's exposure to derivatives is indirect through its participation in the NHPDIP. The Precinct's proportional share of these derivatives is not available. The fair value of the position in the investment pool is equal to the value of the pool shares.

**PENACOOK AND BOSCAWEN WATER PRECINCT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2017

**NOTE 3—CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended December 31, 2017:

	Balance <u>1/1/2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/2017</u>
Capital assets not being depreciated:				
Land	\$ 135,756			\$ 135,756
Total assets not being depreciated	<u>135,756</u>	<u>\$ -</u>	<u>\$ -</u>	<u>135,756</u>
Other capital assets:				
Building and structures	349,234			349,234
Water plant	4,189,666			4,189,666
Distribution infrastructure	1,072,870			1,072,870
Equipment	147,565	6,344		153,909
Total other capital assets	<u>5,759,335</u>	<u>6,344</u>	<u>-</u>	<u>5,765,679</u>
Less accumulated depreciation for:				
Building and structures	(341,749)	(830)		(342,579)
Water plant	(1,533,364)	(94,763)		(1,628,127)
Distribution infrastructure	(703,960)	(31,883)		(735,843)
Equipment	(140,956)	(2,931)		(143,887)
Total accumulated depreciation	<u>(2,720,029)</u>	<u>(130,407)</u>	<u>-</u>	<u>(2,850,436)</u>
Total other capital assets, net	<u>3,039,306</u>	<u>(124,063)</u>	<u>-</u>	<u>2,915,243</u>
Total capital assets, net	<u>\$ 3,175,062</u>	<u>\$ (124,063)</u>	<u>\$ -</u>	<u>\$ 3,050,999</u>

**NOTE 4—LONG-TERM OBLIGATIONS**

The following is a summary of long-term obligations of the Precinct as of December 31, 2017:

	Balance <u>1/1/2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/2017</u>	Amount Due Within <u>One Year</u>
Bonds Payable	\$ 1,355,203		\$ (132,732)	\$ 1,222,471	\$ 125,695
Unamortized Bond Premium	65,655		(12,184)	53,471	
Total Bonds Payable	1,420,858	\$ -	(144,916)	1,275,942	125,695
Note Payable	191,651		(33,623)	158,028	34,920
	<u>\$ 1,612,509</u>	<u>\$ -</u>	<u>\$ (178,539)</u>	<u>\$ 1,433,970</u>	<u>\$ 160,615</u>

General obligation bonds are direct obligations of the Precinct, for which its full faith and credit are pledged, and are payable from charges for services earned on all properties located within Precinct boundaries.

***General Obligation Bonds***

Bonds payable at December 31, 2017 consist of the following individual issues:

**PENACOOK AND BOSCAWEN WATER PRECINCT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2017

\$1,419,562 2006 Drinking Water State Revolving Loan, due in annual installments ranging from \$83,861 to \$91,031, including interest at 2.35%, matures December 2025.	\$ 660,471
\$816,000 2012 Water System Improvement Refunding Bond, due in semi-annual installments ranging from \$42,005 to \$84,050, including interest at 2.0% to 5.0%, matures February 2025.	<u>562,000</u>
	1,222,471
Add: <i>Unamortized bond premium</i>	<u>53,471</u>
Total Bonds Payable	<u>\$ 1,275,942</u>

The annual debt service requirements to retire all general obligation bonds outstanding, including principal forgiveness from the State of New Hampshire to be forgiven over a period of 20 years from the start of the State Revolving Loan Debt, as of December 31, 2017 are as follows:

Year Ending <u>December 31,</u>	<u>Principal</u>	<u>Principal Forgiveness</u>	Total		<u>Total</u>
			<u>Outstanding Principal</u>	<u>Interest</u>	
2018	\$ 125,695	\$ 11,136	\$ 136,831	\$ 47,397	\$ 184,228
2019	129,863	11,136	140,999	42,563	183,562
2020	134,104	11,136	145,240	38,043	183,283
2021	139,421	11,136	150,557	32,551	183,108
2022	144,815	11,135	155,950	26,653	182,603
2023-2025	<u>470,624</u>	<u>22,270</u>	<u>492,894</u>	<u>40,023</u>	<u>532,917</u>
Sub-total Bonds Payable	1,144,522	77,949	1,222,471	227,230	1,449,701
Add: <i>Unamortized Bond premium</i>	<u>53,471</u>	-	<u>53,471</u>	-	<u>53,471</u>
Total Bonds Payable	<u>\$ 1,197,993</u>	<u>\$ 77,949</u>	<u>\$ 1,275,942</u>	<u>\$ 227,230</u>	<u>\$ 1,503,172</u>

The State of New Hampshire annually reimburses the Precinct for its share of water related debt service payments. For the year ending December 31, 2017, the Precinct received annual water debt reimbursements of \$25,328.

***Note Payable***

The note payable outstanding at December 31, 2017 consists of the following individual issue:

\$335,000 New Meter Note Payable, due in quarterly installments of \$10,108, including interest at 3.75%, matures January 2022. Collateralized by 1,100 Senus iPerl water meters.	<u>\$ 158,028</u>
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Debt service requirements to retire the outstanding note payable at December 31, 2017 are as follows:

**PENACOOK AND BOSCAWEN WATER PRECINCT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2017

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 34,920	\$ 5,512	\$ 40,432
2019	36,267	4,165	40,432
2020	37,657	2,775	40,432
2021	39,118	1,314	40,432
2022	10,066	42	10,108
	<u>\$ 158,028</u>	<u>\$ 13,808</u>	<u>\$ 171,836</u>

**NOTE 5—DEFINED BENEFIT PENSION PLAN**

***Plan Description***

The Precinct contributes to the New Hampshire Retirement System (NHRS), 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 New Hampshire Retirement System is a public employee retirement system that administers a single cost-sharing multiple-employer defined benefit pension plan. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature.

The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System at 54 Regional Drive, Concord, New Hampshire 03301 or from their website at [www.nhrs.org](http://www.nhrs.org).

Substantially all full-time state and local employees, public school teachers, permanent firefighters and permanent police officers within the State are eligible and required to participate in the Pension Plan.

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 are available to pay retirement benefits to all members.

***Benefits Provided***

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 vested by January 1, 2012, 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 not attained 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

**PENACOOK AND BOSCAWEN WATER PRECINCT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

For the Year Ended December 31, 2017

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 benefit commencement date precedes the month after which the member attains 52.5 years of age by 1/4 of 1%. For Group II members who commenced service prior to July 1, 2011, who have not attained vested status prior to January 1, 2012 benefits are calculated depending on age and years of creditable service as follows:

<u>Years of creditable service as of January 1, 2012</u>	<u>Minimum Age</u>	<u>Minimum Service</u>	<u>Benefit Multiplier</u>
At least 3 but less than 10 years	46	21	2.4%
At least 6 but less than 8 years	47	22	2.3%
At least 4 but less than 6 years	48	23	2.2%
Less than 4 years	49	24	2.1%

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.

***Funding Policy***

Plan members are required to contribute 7.0% of their covered salary and the Precinct is required to contribute at an actuarially determined rate. The Precinct's contribution rate was 10.86%, through June 30, 2017, and 11.08%, thereafter. The Precinct contributes 100% of the employer cost.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The Precinct's contributions to the pension plan for the year ended December 31, 2017 were \$5,667.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension***

At December 31, 2017, the Precinct reported a liability of \$94,791 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 a roll forward of the actuarial valuation from June 30, 2016. The Precinct's proportion of the net pension liability was based on actual contributions by the Precinct during the relevant fiscal year relative to the actual contributions of all participating plan members, excluding contributions to separately finance specific liabilities of individual employers or NHRS. At June 30, 2017, the Precinct's proportion was approximately 0.0019 percent, which was a decrease of 0.0013 percentage points from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Precinct recognized pension income of \$5,371. At December 31, 2017, the Precinct reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

**PENACOOK AND BOSCAWEN WATER PRECINCT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2017

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 215	\$ 1,206
Net difference between projected and actual earnings on pension plan investments		1,207
Change in assumptions	9,518	
Changes in proportion and differences between Precinct contributions and share of contributions	1,942	57,908
Precinct contributions subsequent to the measurement date	<u>2,068</u>	
Totals	<u>\$ 13,743</u>	<u>\$ 60,321</u>

The net amount of deferred outflows of resources and deferred inflows of resources related to pension is reflected as a decrease to unrestricted net position in the amount of \$46,578. The Precinct reported \$2,068 as deferred outflows of resources related to pension resulting from Precinct contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense for the measurement periods as follows:

<u>June 30,</u>	
2018	\$ (13,680)
2019	(10,750)
2020	(11,275)
2021	<u>(12,941)</u>
	<u>\$ (48,646)</u>

***Actuarial Assumptions***

The total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2016, using the following actuarial assumptions:

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

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

**PENACOOK AND BOSCAWEN WATER PRECINCT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

For the Year Ended December 31, 2017

Retirement rates were based on a table of rates that are specific to the type of eligibility condition, last updated in 2015 pursuant to an experience study of the period July 1, 2010 – June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of weighted average long-term expected real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Net of inflation assumption of 3.25%)</u>
Fixed income	25%	(0.25)-2.11%
Domestic equity	30%	4.25-4.50%
International equity	20%	4.50-6.25%
Real estate	10%	3.25%
Private equity	5%	6.25%
Private debt	5%	4.75%
Opportunistic	5%	2.84%
Total	<u>100%</u>	

***Discount Rate***

The discount rate used to measure the collective 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. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the collective pension liability.

***Sensitivity of the Precinct's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents the Precinct's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Precinct's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the single discount rate:

**PENACOOK AND BOSCAWEN WATER PRECINCT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2017

	1% Decrease (6.25%)	Current Discount rate (7.25%)	1% Increase (8.25%)
Precinct's proportionate share of the net pension liability	\$ 124,882	\$ 94,791	\$ 70,132

**NOTE 6—RISK MANAGEMENT**

The Precinct is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2017, the Precinct was a member of and participated in a public entity risk pool (Trust) for property and liability insurance and worker’s compensation coverage. Coverage has not been significantly reduced from the prior year and settled claims have not exceeded coverage in any of the past three years.

The Trust agreements permit the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at December 31, 2017.

***Property and Liability Insurance***

The Trust provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the Trust, the Precinct shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self-Insured Retention Fund from which is paid up to \$200,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000, up to an aggregate of \$1,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

***Worker’s Compensation***

The Trust provides statutory worker’s compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. The Trust is self-sustaining through annual member premiums and provides coverage for the statutorily required workers’ compensation benefits and employer’s liability coverage up to \$2,000,000. The program includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

**PENACOOK AND BOSCAWEN WATER PRECINCT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2017

**NOTE 7—CONTINGENT LIABILITIES**

*Litigation*

Precinct officials estimate that any potential claims against the Precinct, which are not covered by insurance, are immaterial and would not affect the financial position of the Precinct.

**NOTE 8—RESTATEMENT OF NET POSITION**

*Change in Accounting Policy*

During the year ended December 31, 2017, the Precinct changed its accounting policy related to inventory. Previously, the Precinct accounted for inventory at lower of cost or market on a first-in, first-out basis. During the year, the Precinct outsourced the majority of its operational activities to a contracted vendor who makes the necessary repairs and bills the Precinct for supplies consumed. As a result, the Precinct now expenses inventoriable items as purchased. The impact on net position as of January 1, 2017 is as follows:

Net Position - January 1, 2017 (as previously reported)	\$ 1,864,560
Amount of restatement due to:	
Change in accounting principle	<u>(32,784)</u>
Net Position - January 1, 2017, as restated	<u>\$ 1,831,776</u>

SCHEDULE 1

**PENACOOK AND BOSCAWEN WATER PRECINCT**

**Schedule of Changes in the Precinct's Proportionate Share of the Net Pension Liability**

For the Year Ended December 31, 2017

<u>Measurement Period Ended</u>	<u>Precinct's Proportion of the Net Pension Liability</u>	<u>Precinct's Proportionate Share of the Net Pension Liability</u>	<u>Precinct's Covered Payroll</u>	<u>Precinct's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2017	0.00192743%	\$ 94,791	\$ 65,016	145.80%	62.66%
June 30, 2016	0.00321158%	\$ 170,779	\$ 105,897	161.27%	58.30%
June 30, 2015	0.00362382%	\$ 143,559	\$ 116,451	123.28%	65.47%
June 30, 2014	0.00352049%	\$ 132,145	\$ 109,399	120.79%	66.32%
June 30, 2013	0.00372589%	\$ 160,354	\$ 109,252	146.77%	59.81%

*See accompanying notes to the required supplementary information*

SCHEDULE 2  
**PENACOOK AND BOSCAWEN WATER PRECINCT**  
**Schedule of Precinct Contributions**  
For the Year Ended December 31, 2017

<u>Year Ended</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Precinct's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
December 31, 2017	\$ 5,667	\$ (5,667)	\$ -	\$ 51,809	10.94%
December 31, 2016	\$ 8,798	\$ (8,798)	\$ -	\$ 81,016	10.86%
December 31, 2015	\$ 12,272	\$ (12,272)	\$ -	\$ 115,266	10.65%
December 31, 2014	\$ 11,599	\$ (11,599)	\$ -	\$ 111,103	10.44%
December 31, 2013	\$ 10,405	\$ (10,405)	\$ -	\$ 109,701	9.48%

*See accompanying notes to the required supplementary information*

**PENACOOK AND BOSCAWEN WATER PRECINCT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
For the Year Ended December 31, 2017

**NOTE 1—SCHEDULE OF CHANGES IN THE PRECINCT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF PRECINCT CONTRIBUTIONS**

In accordance with GASB Statement #68, *Accounting and Financial Reporting for Pensions*, the Precinct is required to disclose historical information for each of the prior ten years within a schedule of changes in the Precinct's proportionate share of the net pension liability, and schedule of Precinct contributions. The Precinct implemented the provisions of GASB Statement #68 during the year ended December 31, 2015. Accordingly, the historic information has only been presented for those years which information was readily available. Additional disclosures will be made in future years as the information becomes available.

***Changes in Actuarial Assumptions***

For the June 30, 2015 actuarial valuation, the New Hampshire Retirement System reduced its assumption for the investment rate of return from 7.75% to 7.25%, decreased the price inflation from 3.0% to 2.5%, decreased the wage inflation from 3.75% to 3.25%, decreased the salary increases from 5.8% to 5.6%, and changed the mortality table from the RP-2000 projected to 2020 with Scale AA to the RP-2014 employee generational mortality table for males and females, adjusted for mortality improvements using Scale MP-2015.