

**TOWN OF HAMPTON,
NEW HAMPSHIRE**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2006**

TOWN OF HAMPTON, NEW HAMPSHIRE
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2006

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TOWN OF HAMPTON, NEW HAMPSHIRE
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
AS OF AND FOR THE FISCAL YEAR ENDED
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PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Selectmen and Town Manager
Town of Hampton
Hampton, New Hampshire

We have audited the accompanying financial statements of the Town of Hampton, as of and for the fiscal year ended December 31, 2006 as shown on pages 3 through 7. These financial statements are the responsibility of the Town of Hampton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Therefore, these financial statements are presented following the principles that were in effect prior to GASB Statement No. 34. Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities. The financial statements presented do not contain separate statements for governmental, proprietary, if applicable and fiduciary fund types, nor are major and nonmajor funds separately identified and classified. The financial statements presented report expendable and nonexpendable trust funds, some of which should be reported as special revenue and permanent funds under the new reporting model. The financial statements also present a general long-term debt account group which should not be reported as such, but the information contained therein should be included in the government-wide financial statements were they presented. Also, the financial statements do not contain any information on capital assets because the government has not maintained historical cost records of such assets. Management has not presented a management's discussion and analysis as required. The amounts that would be reported in the missing statements and required supplementary information, and the effects of reclassifying and properly reporting the information presented are not reasonably determined.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Town of Hampton as of December 31, 2006, or the changes in its financial position or its cash flows, where applicable, for the year then ended.

*Town of Hampton
Independent Auditor's Report*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2007 on our consideration of the Town of Hampton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hampton's basic financial statements. The combining and individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Town of Hampton. For reasons stated in the third paragraph of this report, we expressed an opinion that the financial statements of the Town of Hampton do not fairly present financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Therefore, we do not express an opinion on the accompanying combining and individual fund schedules or the schedule of expenditures of federal awards.

Gregory A. Collyer, CPA

January 26, 2007

PLODZIK & SANDERSON
Professional Association

FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF HAMPTON, NEW HAMPSHIRE
Combined Balance Sheet
All Fund Types and Account Group
December 31, 2006

	Governmental Fund Types			Fiduciary Fund Types Trust and Agency	Account Group		Total (Memorandum Only)
	General	Special Revenue	Capital Projects		General	Long-Term Debt	
ASSETS AND OTHER DEBITS							
Assets:							
Cash and cash equivalents	\$ 7,885,472	\$ 543,215	\$ 1,872,343	\$ 885,849	\$ -	\$ -	\$ 11,186,879
Investments	-	484,730	-	16,872,692	-	-	17,357,422
Receivables, net of allowance for uncollectible:							
Interest	-	-	-	186,768	-	-	186,768
Taxes	2,545,890	-	-	-	-	-	2,545,890
Accounts	123,890	182,443	-	-	-	-	306,333
Intergovernmental	58,464	-	826,336	-	-	-	884,800
Interfund receivable	3,479,538	-	-	-	-	-	3,479,538
Voluntary tax liens	108,871	-	-	-	-	-	108,871
Voluntary tax liens reserved until collected	(108,871)	-	-	-	-	-	(108,871)
Prepaid items	16,779	7,826	-	-	-	-	24,605
Other debits:							
Amount to be provided for retirement of general long-term debt	-	-	-	-	29,508,110	-	29,508,110
Total assets and other debits	\$ 14,110,053	\$ 1,218,214	\$ 2,698,679	\$ 17,945,309	\$ 29,508,110	\$ -	\$ 65,480,365

(Continued)

EXHIBIT A (Continued)
TOWN OF HAMPTON, NEW HAMPSHIRE
Combined Balance Sheet
All Fund Types and Account Group
For The Fiscal Year Ended December 31, 2006

	Governmental Fund Types			Fiduciary Fund Types	Account Group		Total (Memorandum Only)
	General	Special Revenue	Capital Projects		General	Long-Term Debt	
LIABILITIES AND EQUITY							
Liabilities:							
Accounts payable	\$ 175,151	\$ 11,805	\$ 43,318	\$ 5,045	\$ -	\$ -	\$ 235,319
Accrued salaries and benefits	160,854	6,879	-	-	-	-	167,733
Contracts payable	-	-	77,332	-	-	-	77,332
Intergovernmental payable	11,214,650	-	-	34,233	-	-	11,248,883
Interfund payable	-	171,786	2,712,651	595,121	-	-	3,479,558
Retainage payable	-	-	345,721	-	-	-	345,721
Eserow and performance deposits	40,525	-	-	315,899	-	-	356,424
Deferred revenue	28,960	35,856	67,191	-	-	-	132,007
General obligation bonds/notes payable	-	-	-	-	27,241,118	-	27,241,118
Capital lease payable	-	-	-	-	529,829	-	529,829
Compensated absences payable	-	-	-	-	1,170,163	-	1,170,163
Accrued landfill postclosure care costs	-	-	-	-	567,000	-	567,000
Total liabilities	<u>11,620,140</u>	<u>226,326</u>	<u>3,246,213</u>	<u>950,298</u>	<u>29,508,110</u>	<u>-</u>	<u>45,551,087</u>
Equity:							
Fund balances:							
Reserved for encumbrances	1,019,962	-	128,596	-	-	-	1,148,558
Reserved for endowments	-	-	-	16,288,623	-	-	16,288,623
Reserved for special purposes	-	-	18,248	706,388	-	-	724,636
Unreserved:							
Designated for contingency	700,000	-	-	-	-	-	700,000
Designated for special purposes	-	991,888	-	-	-	-	991,888
Undesignated (deficit)	769,951	-	(694,378)	-	-	-	75,573
Total equity	<u>2,489,913</u>	<u>991,888</u>	<u>(547,534)</u>	<u>16,995,011</u>	<u>-</u>	<u>-</u>	<u>19,929,278</u>
Total liabilities and equity	<u>\$ 14,110,053</u>	<u>\$ 1,218,214</u>	<u>\$ 2,698,679</u>	<u>\$ 17,945,309</u>	<u>\$ 29,508,110</u>	<u>\$ -</u>	<u>\$ 65,480,365</u>

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

EXHIBIT B
TOWN OF HAMPTON, NEW HAMPSHIRE
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For The Fiscal Year Ended December 31, 2006

	Governmental Fund Types			Fiduciary		Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Fund Types Expendable Trust		
Revenues:						
Taxes	\$ 18,609,662	\$ -	\$ -	\$ -	\$ -	\$ 18,609,662
Licenses and permits	3,027,647	-	-	-	-	3,027,647
Intergovernmental	2,060,037	22,891	418,787	-	-	2,501,715
Charges for services	775,354	1,093,958	-	-	-	1,869,312
Miscellaneous	383,300	70,022	30,317	32,051	32,051	515,690
Total revenues	24,856,000	1,186,871	449,104	32,051	32,051	26,524,026
Expenditures:						
Current:						
General government	5,577,272	-	-	-	-	5,577,272
Public safety	7,596,679	1,030,908	-	-	-	8,627,587
Highways and streets	2,451,410	240,000	-	-	-	2,691,410
Sanitation	4,170,490	-	-	-	-	4,170,490
Health	251,861	-	-	-	-	251,861
Welfare	124,880	-	-	-	-	124,880
Culture and recreation	246,620	931,849	-	-	-	1,178,469
Conservation	-	16,526	-	-	-	16,526
Debt service	3,151,943	-	-	-	-	3,151,943
Capital outlay	862,853	21,951	6,107,442	-	-	6,992,246
Total expenditures	24,434,008	2,241,234	6,107,442	-	-	32,782,684
Excess (deficiency) of revenues over (under) expenditures	421,992	(1,054,363)	(5,658,338)	32,051		(6,258,658)
Other financing sources (uses):						
Interfund transfers in	762,642	714,057	-	10,600		1,487,299
Interfund transfers out	(724,214)	(150,000)	-	(16,504)		(890,718)
General obligation debt issued	605,624	-	1,456,677	-		2,062,301
Total other financing sources and uses	644,052	564,057	1,456,677	(5,904)		2,658,882
Net change in fund balances	1,066,044	(490,306)	(4,201,661)	26,147		(3,599,776)
Fund balances, beginning	1,423,869	1,482,194	3,654,127	679,891		7,240,081
Fund balances, ending	\$ 2,489,913	\$ 991,888	\$ (547,534)	\$ 706,038		\$ 3,640,305

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

EXHIBIT C
TOWN OF HAMPTON, NEW HAMPSHIRE
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General and Special Revenue Funds
For The Fiscal Year Ended December 31, 2006

	General Fund			Annually Budgeted Special Revenue Funds			Total (Memorandum Only)		
				Variance			Variance		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Revenues:									
Taxes	\$ 18,453,471	\$ 18,609,662	\$ 156,191	\$ -	\$ -	\$ -	\$ 18,453,471	\$ 18,609,662	\$ 156,191
Licenses and permits	3,051,100	3,027,647	(23,453)	-	-	-	3,051,100	3,027,647	(23,453)
Intergovernmental	1,695,563	1,695,563	-	90,000	22,891	(67,109)	1,785,563	1,718,454	(67,109)
Charges for services	757,701	775,354	17,653	428,000	1,026,089	598,089	1,185,701	1,801,443	615,742
Miscellaneous	402,143	383,300	(18,843)	1,000	54,618	53,618	403,143	437,918	34,775
Total revenues	24,359,978	24,491,526	131,548	519,000	1,103,598	584,598	24,878,978	25,595,124	716,146
Expenditures:									
Current:									
General government	6,099,513	5,563,635	535,878	-	-	-	6,099,513	5,563,635	535,878
Public safety	7,334,141	7,243,141	91,000	421,000	904,077	(483,077)	7,755,141	8,147,218	(392,077)
Highways and streets	2,502,798	2,443,049	59,749	-	-	-	2,502,798	2,443,049	59,749
Sanitation	3,889,980	4,048,703	(158,723)	-	-	-	3,889,980	4,048,703	(158,723)
Health	266,480	250,818	15,662	-	-	-	266,480	250,818	15,662
Welfare	113,324	124,880	(11,556)	-	-	-	113,324	124,880	(11,556)
Culture and recreation	252,697	246,978	5,719	853,472	923,717	(70,245)	1,106,169	1,170,695	(64,526)
Conservation	-	-	-	3,601	16,526	(12,925)	3,601	16,526	(12,925)
Debt service	3,282,207	3,151,943	130,264	-	-	-	3,282,207	3,151,943	130,264
Capital outlay	552,700	517,085	35,615	-	21,951	(21,951)	552,700	539,036	13,664
Total expenditures	24,293,840	23,590,232	703,608	1,278,073	1,866,271	(588,198)	25,571,913	25,456,503	115,410
Excess (deficiency) of revenues over (under) expenditures	66,138	901,294	835,156	(759,073)	(762,673)	(3,600)	(692,935)	138,621	831,556
Other financing sources (uses):									
Interfund transfers in	703,535	762,642	59,107	759,073	714,057	(45,016)	1,462,608	1,476,699	14,091
Interfund transfers out	(769,673)	(724,214)	45,459	-	(150,000)	(150,000)	(769,673)	(874,214)	(104,541)
Total other financing sources and uses	(66,138)	38,428	104,566	759,073	564,057	(195,016)	692,935	602,485	(90,450)
Net change in fund balances	\$ -	\$ 939,722	\$ 939,722	\$ -	\$ (198,616)	\$ (198,616)	\$ -	\$ 741,106	\$ 741,106
Unreserved fund balances, beginning		530,229			1,007,885			1,538,114	
Unreserved fund balances, ending		\$ 1,469,951			\$ 809,269			\$ 2,279,220	

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

EXHIBIT D
TOWN OF HAMPTON, NEW HAMPSHIRE
Combined Statement of Revenues, Expenses and Changes in Fund Balance
All Nonexpendable Trust Funds
For The Fiscal Year Ended December 31, 2006

Operating revenues:	
Interest and dividends	\$ 662,790
Net increase in fair value of investments	71,028
Total operating revenues	<u>733,818</u>
Operating expenses:	
Administration	12,940
Transfers out to other funds	<u>596,581</u>
Total operating expenses	<u>609,521</u>
Operating income	124,297
Fund balance, beginning	<u>16,164,676</u>
Fund balance, ending	<u>\$ 16,288,973</u>

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

EXHIBIT E
TOWN OF HAMPTON, NEW HAMPSHIRE
Combined Statement of Cash Flows
All Nonexpendable Trust Funds
For The Fiscal Year Ended December 31, 2006

Cash flows from operating activities:	
Cash received as interest and dividends	\$ 638,646
Cash paid as trust income distributions	(11,881)
Cash paid to other funds	(558,031)
Net cash provided by operating activities	68,734
Cash flows from investing activities:	
Purchase of investments	(10,433,029)
Proceeds from sale and maturities of investments	10,411,604
Net cash used in investing activities	(21,425)
Net increase in cash	47,309
Cash, beginning	522,641
Cash, ending	\$ 569,950

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income	\$ 124,297
Adjustments to reconcile operating income to net cash provided by operating activities:	
Net increase in fair value of investments	(71,028)
Increase in accrued interest receivable	(24,144)
Increase in accounts payable	1,059
Increase in interfund payable	38,550
Total adjustments	(55,563)
Net cash provided by operating activities	\$ 68,734

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

TOWN OF HAMPTON, NEW HAMPSHIRE
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2006

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TOWN OF HAMPTON, NEW HAMPSHIRE
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1-A Reporting Entity

The Town of Hampton, New Hampshire, is a municipal corporation governed by an elected 5-member Board of Selectmen. The reporting entity is comprised of the primary government and any other organizations that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the Town is financially accountable. The Town is financially accountable for an organization if the Town appoints a voting majority of the organization's governing board and (1) the Town is able to significantly influence the programs or services performed or provided by the organization; or (2) the Town is legally entitled to or can otherwise access the organization's resources; the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Town is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the Town's financial reporting entity.

1-B Basis of Presentation

The accounts of the Town are organized on the basis of funds and account groups, 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, liabilities, fund equity, revenues, and expenditures/expenses, as appropriate. The various funds are grouped by type in the financial statements. The following fund types and account groups are used by the Town:

Governmental Fund Types

General Fund - The general fund is the primary operating fund of the Town. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs that are not paid through other funds.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Capital Projects Funds - Transactions related to resources obtained and used for the acquisition, construction, or improvement of capital facilities are accounted for in capital projects funds.

Fiduciary Fund Types

Trust and Agency Funds - These funds account for assets held or established under a formal trust agreement or Town Meeting vote, or assets held by the Town as a trustee or agent for individuals, private organizations, or other units of government.

Account Groups

Account groups are not "funds." They are concerned only with the measurement of financial position. They are not involved with the measurement of results of operations. The Town uses the following account groups:

General Fixed Assets Account Group - General fixed assets have been acquired for general governmental purposes and have been recorded as expenditures in the applicable fund. The Town does not maintain a record of its general fixed assets valued at historical cost, and accordingly, a statement of general fixed assets is not included in this financial report.

General Long-Term Debt Account Group - This account group was established to account for all long-term debt of the Town.

TOWN OF HAMPTON, NEW HAMPSHIRE
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2006

1-C Measurement Focus/Basis of Accounting

Governmental, expendable trust and agency funds use the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both available and measurable (flow of current financial resources measurement focus). Licenses and permits, fines and forfeits, and most miscellaneous revenues are recorded when received in cash. General taxes, intergovernmental revenues, charges for services, and investment earnings are recorded when earned (when they are measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except expenditures for prepayments, debt service, and other long-term obligations, which are recognized when due.

Nonexpendable trust funds are accounted for using the accrual basis of accounting. Using this basis of accounting, revenues are recognized when they are earned, and expenses are recognized when they are incurred (flow of economic resources measurement focus).

1-D Assets, Liabilities and Fund Equity

1-D-1 Cash, Cash Equivalents and Investments

Cash and Cash Equivalents - Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Town.

New Hampshire statutes require that the Town treasurer have custody of all moneys belonging to the Town and pay out the same only upon orders of the Town Manager. The treasurer shall deposit all moneys in participation units in the public deposit investment pool established pursuant to N.H. RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge or 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 of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

Investments - Whenever the treasurer has in custody an excess of funds which are not immediately needed for the purpose of expenditure, the treasurer shall, with the approval of the Town Manager, invest the excess funds. New Hampshire law authorizes the Town to invest in the following types of obligations:

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

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

Investments are stated at fair value as of the balance sheet date which is based on quoted market prices

TOWN OF HAMPTON, NEW HAMPSHIRE
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2006

1-D-2 Receivables

Tax revenue is recorded when a warrant for collection is committed to the tax collector. Taxes receivable are reported net of an allowance for a portion of the uncollected taxes receivable based on historical trend information relative to collectibility. As prescribed by law, the tax collector executes a lien on properties for all uncollected property taxes in the following year after taxes are due. The lien on these properties has priority over other liens and accrues interest at 18% per annum. If property is not redeemed within the 2-year redemption period, the property is tax deeded to the Town.

Accounts receivable include various service charges which are recorded as revenue for the period when service was provided. These receivables are reported net of any allowances for uncollectible amounts.

1-D-3 Interfund Balances and Activity

During the course of normal operations, the Town has transactions between funds, including expenditures and transfers of resources to provide services and fund capital outlay. The accompanying governmental and fiduciary fund financial statements reflect such transactions as transfers. To the extent that certain transactions have not been paid or received as of year-end, balances of interfund amounts receivable or payable have been recorded.

1-D-4 Prepaid Items

Payments made to vendors for services that will benefit periods beyond year-end are recorded as prepaid items using the consumption method, by recording an asset for the prepaid amount and reflecting the expenditure in the year in which services are consumed.

1-D-5 Compensated Absences

Employees may accumulate a limited amount of earned, but unused vested benefits which will be paid upon separation from the Town's service. In governmental fund types, the cost of vested benefits paid or expected to be liquidated with expendable, available financial resources is reported as an expenditure and fund liability of the fund. Amounts of vested or accumulated leave benefits that are not expected to be liquidated with expendable, available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

1-D-6 Deferred Revenue

The government reports deferred revenue on its combined balance sheet. Deferred revenue arises when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

1-D-7 Accrued Liabilities and Long-Term Obligations

All payables and accrued liabilities are reported in the financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year.

The Town reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group.

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1-D-8 Fund Equity

Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or that do not represent available, spendable resources, and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance that is available for appropriation in future periods. Designations are management's intent to set aside these resources for specific purposes.

The following reserves are used by the Town:

Reserved for Encumbrances - is used to account for open purchase orders, contracts and other commitments at year-end for which goods and services have not been received.

Reserved for Endowments - represents the principal balance of the Town's nonexpendable trust funds which must be held for investment purposes only.

Reserved for Special Purposes - is used to account for the unencumbered balance of restricted funds. These consist of the uncommitted balances of the capital projects funds, the Town's expendable trust funds, and the income portion of the Town's nonexpendable trust funds.

The following designations are used by the Town:

Designated for Contingency - is used to account for potential abatements or adjustments of property tax accounts for which revenue has previously been recorded, and for potential legal settlements.

Designated for Special Purposes - is used to account for the unencumbered balances of special revenue funds.

1-D-9 Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

1-D-10 Memorandum Only - Total Columns

Total columns on the financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with U.S. generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

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, recreation, Lane Memorial Library, conservation commission, ambulance service, fire alarm, police private detail, police forfeiture and cable t.v. local origination funds. Project-length financial plans were adopted for the capital projects funds. Except as reconciled in Note 2-B, the budget was adopted on a basis consistent with U.S. 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.

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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 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 unreserved fund balance to achieve that end. In the fiscal year 2006, none of the beginning fund balance was applied for this purpose.

2-B Budgetary Reconciliation

Amounts recorded as budgetary revenues and expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds (Exhibit C) are presented on the basis budgeted by the Town. The amounts differ from those reported in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds (Exhibit B) as follows:

	General Fund	Special Revenue Funds
Revenues and other financing sources:		
Per Exhibit C (budgetary basis)	\$ 25,254,168	\$ 1,817,655
Adjustments:		
Basis difference:		
Capital lease inception	605,624	-
On-behalf retirement contributions made by the State of New Hampshire recognized as revenue on the GAAP basis, but not on the budgetary basis	364,474	-
Entity difference:		
Unbudgeted funds:		
Beach infrastructure	-	83,017
U.S.S. Hampton	-	220
Founders' Day	-	5
Police grants	-	31
Per Exhibit B	\$ 26,224,266	\$ 1,900,928
Expenditures and other financing uses:		
Per Exhibit C (budgetary basis)	\$ 24,314,446	\$ 2,016,271
Adjustments:		
Basis difference:		
Capital lease inception	605,624	-
Encumbrances, beginning	893,640	134,963
Encumbrances, ending	(1,019,962)	-
On-behalf retirement contributions made by the State of New Hampshire recognized as expenditure on the GAAP basis, but not on the budgetary basis	364,474	-
Entity difference:		
Unbudgeted fund:		
Beach infrastructure	-	240,000
Per Exhibit B	\$ 25,158,222	\$ 2,391,234

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2-C Excess of Expenditures Over Appropriations

The following governmental funds had an excess of expenditures over appropriations for the year ended December 31, 2006:

Special revenue funds:	
Recreation	\$ 144,779
Conservation commission	12,925
Ambulance service	328,380
Police private detail	<u>349,638</u>
Total	<u>\$ 835,722</u>

Overexpenditures were primarily due to the receipt and expenditure of unanticipated funds or the expenditure of existing fund equity as approved by Town Meeting.

2-D Deficit Fund Equity

There are unreserved deficits in the following capital projects funds:

Sewer facilities update	\$ 619,851
Beach infrastructure	56,552
Public safety pier	<u>17,975</u>
Total	<u>\$ 694,378</u>

These deficits are a result of not recognizing authorized long-term debt until borrowed.

2-E Applicable Reporting Standard

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. When implemented, it requires new information and restructures much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Town was required to implement this standard beginning with the year ended December 31, 2003, but has not done so.

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

3-A Custodial Credit Risk for Deposits and Investment Risks

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of December 31, 2006, \$717,999 of the Town's bank balances of \$11,891,860 was exposed to custodial credit risk as uninsured and uncollateralized.

Repurchase Agreement

Included in the Town's cash equivalents at December 31, 2006, is a short-term investment in a repurchase agreement issued by a local banking institution. Under this agreement, the Town will be repaid principal plus interest on a specified date which is subsequent to year-end. The agreement is guaranteed/collateralized with securities held by the banking institution which exceed the amount of the agreement. To the extent that the banking institution may default on its commitment to this obligation, the Town is at risk of economic loss. Management considers this exposure to be minimal. At December 31, 2006, the Town held an investment in the following repurchase agreement:

Amount	Interest Rate	Maturity Date	Collateral Pledged	
			Underlying Securities	Market Value
\$ 336,779	5.05%	January 1, 2007	FNLM	\$ 354,490

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As of December 31, 2006, the Town had the following investments:

Certificates of deposit	\$ 1,328,100
U S government obligations	15,771,382
Corporate bonds	253,080
Common stocks	4,860
Total	<u>\$ 17,357,422</u>

Interest Rate Risk - The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits investments to those described in Note 1-D-1. The Town has no investment policy that would further limit its investment choices.

Custodial Credit Risk - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of December 31, 2006, \$1,039,650 of the Town's \$17,357,422 in investments is subject to custodial credit risk because the securities are held by the counter party's trust department or agent, not in the Town's name. The Town does not have policies for custodial credit risk.

Concentration of Credit Risk - The Town places no limit on the amount it may invest in any one issuer. The Town had no investments in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the total Town investments.

3-B Taxes Receivable

The property tax year is from April 1 to March 31 and all property taxes are assessed on the inventory taken in April of that year. The net assessed valuation as of April 1, 2006, upon which the 2006 property tax levy was based is:

For the New Hampshire education tax	\$ 2,336,532,900
For all other taxes	\$ 2,372,731,900

The Town subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Under this method, tax bills are due on or around July 1 and December 1 of each year, with interest accruing at a rate of 1.2% on bills outstanding after the due date. The first billing is considered an estimate only and is one half of the previous year's tax billing. The remaining balance of taxes due is billed in the fall after the New Hampshire Department of Revenue Administration has calculated and approved the Town's tax rate for the fiscal year.

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 abatements and refunds of property taxes, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any tax allowances at year-end. The property taxes collected by the Town include taxes levied for the State of New Hampshire, Hampton School District, Winnacunnet Cooperative School District, Hampton Beach Village District and Rockingham County, which are remitted as required by law. The ultimate responsibility for the collection of taxes rests with the Town.

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The tax rates and amounts assessed for the year ended December 31, 2006, were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$ 7.96	\$ 18,898,897
School portion:		
State of New Hampshire	\$ 2.96	6,914,116
Local	\$ 7.27	17,250,375
County portion	\$ 1.12	2,646,916
Precinct portion - nonexempt	\$ 0.71	267,898
Precinct portion - exempt	\$ 0.36	168,913
Total property taxes assessed		<u>\$ 46,147,115</u>

During the current fiscal year, the tax collector executed a lien on August 25 for all uncollected 2005 property taxes.

Taxes receivable at December 31, 2006, are as follows:

Property:	
Levy of 2006	\$ 2,409,703
Unredeemed (under tax lien):	
Levy of 2005	221,497
Levy of 2004	105,190
Less: allowance for estimated uncollectible taxes	(190,500)
Net taxes receivable	<u>\$ 2,545,890</u>

3-C Other Receivables

Other receivables at December 31, 2006, consist of interest, accounts (billings for user charges) and intergovernmental amounts arising from grants, court fees and the sewer agreement.

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 collectibility.

Amounts receivable at December 31, 2006 are as follows:

	General Fund	Special Revenue Funds	Capital Project Funds	Trust Funds	Total
Interest	\$ -	\$ -	\$ -	\$ 186,768	\$ 186,768
Accounts	123,890	323,095	-	-	446,985
Intergovernmental	58,464	-	826,336	-	884,800
Liens	108,871	-	-	-	108,871
Allowance for unavailable or uncollectible amounts	(108,871)	(140,652)	-	-	(249,523)
Net total receivables	<u>\$ 182,354</u>	<u>\$ 182,443</u>	<u>\$ 826,336</u>	<u>\$ 186,768</u>	<u>\$ 1,377,901</u>

TOWN OF HAMPTON, NEW HAMPSHIRE
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3-D Interfund Balances and Transfers

Interfund balances at December 31, 2006 consist of overdrafts in the pooled cash and investments, and budgetary transfers

The composition of interfund balances as of December 31, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Conservation commission	\$ 150,000
	Police forfeiture	20,891
	Founders' Day	612
	Police grants	283
	Wastewater treatment plant improvements	250,484
	Police facility	47,970
	Sewer facilities update	747,161
	Beach infrastructure	1,328,744
	Public safety pier	338,292
	Nonexpendable trust	595,121
		<u>\$ 3,479,558</u>

Interfund transfers during the year were comprised of the following:

	<u>Transfers In:</u>					<u>Total</u>
	<u>General Fund</u>	<u>Recreation Fund</u>	<u>Lane Memorial Library Fund</u>	<u>Conservation Commission Fund</u>	<u>Expendable Trust Funds</u>	
Transfers out:						
General fund	\$ -	\$ -	\$ 710,014	\$ 3,600	\$ 10,600	\$ 724,214
Conservation commission fund	150,000	-	-	-	-	150,000
Expendable trust funds	16,504	-	-	-	-	16,504
Nonexpendable trust funds	596,138	87	356	-	-	596,581
Totals	<u>\$ 762,642</u>	<u>\$ 87</u>	<u>\$ 710,370</u>	<u>\$ 3,600</u>	<u>\$ 10,600</u>	<u>\$ 1,487,299</u>

3-E Intergovernmental Payable

Amounts due to other governments at December 31, 2006 consist of:

General fund:	
Balance of 2006-2007 district assessment due to:	
Hampton School District	\$ 7,355,669
Winnacunnet Cooperative School District	3,830,822
Fees due to the State of New Hampshire	1,652
Balance of 2006 assessment due to Hampton Beach Village District	26,507
Trust funds:	
Expendable:	
Balance of funds belonging to the Hampton Beach Village District	34,233
Total	<u>\$ 11,248,883</u>

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3-F Long-Term Liabilities

Changes in the Town's long-term obligations during the year ended December 31, 2006, consisted of the following:

	Balances, beginning	Additions	Reductions	Balances, ending
General obligation bonds/notes	\$ 27,953,599	\$ 1,456,677	\$ 2,169,158	\$ 27,241,118
Capital lease	1,846	605,624	77,641	529,829
Compensated absences	1,450,421	-	280,258	1,170,163
Accrued landfill postclosure care costs	880,000	-	313,000	567,000
Totals	<u>\$ 30,285,866</u>	<u>\$ 2,062,301</u>	<u>\$ 2,840,057</u>	<u>\$ 29,508,110</u>

Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2006
General obligation bonds/notes payable:					
Wastewater treatment plant	\$ 1,398,340	1999	2019	5.10	\$ 892,554
Police facility	\$ 6,323,000	2002	2012	4.75	3,791,000
Beach infrastructure	\$ 6,000,000	2004	2024	3.86	5,400,000
SRF financing	\$ 4,305,000	2005	2019	3.62	3,905,000
WWTP upgrade	\$ 4,750,000	2005	2024	3.69	4,275,000
Hurd Farm easement	\$ 2,005,000	2005	2025	4.00	1,902,179
Beach infrastructure	\$ 725,000	2005	2025	4.07	687,821
Partial drawdown of SRF					<u>6,387,564</u> *
					<u>27,241,118</u>
Capital lease payable:					
Ladder truck	\$ 605,624	2006	2011	3.92	<u>529,829</u>
Compensated absences payable:					
Accrued vacation leave					213,143
Vested sick leave					687,993
Other					<u>269,027</u>
					<u>1,170,163</u>
Accrued landfill postclosure care costs					<u>567,000</u>
Total					<u>\$ 29,508,110</u>

* Repayment of state revolving fund loans does not commence until the respective project is complete. This loan is still in the process of being drawndown, and is not finalized as of December 31, 2006.

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The annual requirements to amortize all general obligation debt outstanding as of December 31, 2006, including interest payments, are as follows:

Annual Requirements To Amortize General Obligation Bonds/Notes Payable

Fiscal Year Ending December 31,	Principal	Interest	Total
2007	\$ 1,778,159	\$ 817,169	\$ 2,595,328
2008	1,778,158	746,030	2,524,188
2009	1,778,158	674,892	2,453,050
2010	1,773,158	603,755	2,376,913
2011	1,768,158	532,792	2,300,950
2012-2016	6,156,790	1,779,864	7,936,654
2017-2021	3,668,474	850,172	4,518,646
2022-2025	2,152,499	187,853	2,340,352
Subtotals	20,853,554	6,192,527	27,046,081
State revolving fund loan*	6,387,564	-	6,387,564
Totals	<u>\$ 27,241,118</u>	<u>\$ 6,192,527</u>	<u>\$ 33,433,645</u>

**Repayment of state revolving fund loans does not commence until the respective project is complete
This loan is still in the process of being drawdown. and is not finalized as of December 31. 2006*

Annual Requirements To Amortize Capital Lease Payable

Fiscal Year Ending December 31,	Principal	Interest	Total
2007	\$ 114,411	\$ 18,745	\$ 133,156
2008	118,981	14,175	133,156
2009	123,734	9,422	133,156
2010	128,677	4,479	133,156
2011	44,026	360	44,386
Totals	<u>\$ 529,829</u>	<u>\$ 47,181</u>	<u>\$ 577,010</u>

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

Bonds and notes authorized and unissued as of December 31, 2006, were as follows:

Per Town Meeting Vote of	Purpose	Unissued Amount
March 11, 2003	Hampton Beach infrastructure improvements	\$ 552,561
March 11, 2003	Sewer facilities update	544,612
March 14, 2006	Wastewater treatment plant upgrade	1,415,000
Total		<u>\$ 2,512,173</u>

Accrued Landfill Postclosure Care Costs

In accordance with State laws, the Town has placed a cover on its unlined landfill and is performing certain maintenance and monitoring functions at the landfill site. A liability is being recognized in the general long-term debt account group for the future postclosure care costs of \$567,000 (estimated \$27,000 per year for 21 years), which is based on the amount that would be paid if all services required to monitor and maintain the landfill were acquired as of December 31, 2006. However, the actual cost of postclosure care may be higher or lower due to inflation, changes in technology, or changes in landfill laws and regulations. The Town expects to finance the postclosure care costs with general fund revenue.

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3-G State Aid to Water Pollution Projects

In addition to local revenues, the “amount to be provided for retirement of general long-term debt,” includes the following amount to be received from the State of New Hampshire in the form of state aid to water pollution projects:

Bond Issues	State Aid Grant Number	Amount
\$2,712,489 sewer construction loan	C-496	\$ 292,614

Under N.H. RSA Chapter 486, the Town receives from the State of New Hampshire a percentage of the annual amortization charges on the original costs resulting from the acquisition and construction of sewage disposal facilities. At December 31, 2006, the Town is due to receive the following annual amounts to offset debt payments:

Fiscal Year Ending December 31,	Amount
2007	\$ 37,404
2008	36,181
2009	34,959
2010	33,736
2011	32,513
2012-2015	117,821
Total	\$ 292,614

NOTE 4 - OTHER MATTERS

4-A Pensions

The Town of Hampton participates in the New Hampshire Retirement System (the System) which consists of a cost-sharing, multiple-employer contributory pension plan and trust 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 plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provisions for benefits and contributions are established and can be amended by the New Hampshire Legislature. 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.

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 except police officers and firefighters are required to contribute 5% of earnable compensation. Police officers and firefighters are required to contribute 9.3% of gross earnings. For 2006, the Town contributed 9.68% for police, 14.36% for fire and 6.81% for other employees. The contribution requirements for the Town of Hampton for the fiscal years 2004, 2005, and 2006 were \$850,967, \$926,636, and \$969,156, respectively, which were paid in full in each year.

The State of New Hampshire funds 35% of employer costs for police officers and firefighters employed by the Town. This amount, \$364,474, is reported as an “on-behalf” payment, as an expenditure and revenue on the governmental fund operating statement, and as an expense and revenue on the government-wide statement of activities.

4-B 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 2006, the Town was a member of the Local Government Center Property-Liability Trust, LLC, which is a Trust organized to provide certain property and liability insurance coverages to member towns, cities and other qualified political subdivisions of New Hampshire. As a member of the Local

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Government Center Property-Liability Trust, LLC, the Town shares in contributing to the cost of, and receiving benefits from, a self-insured pooled risk management program. The membership and coverage run from July 1 to June 30. The program maintains a self-insured retention above which it purchases reinsurance and excess insurance. This policy covers property, auto physical damage, crime, general liability and public officials' liability subject to a \$1,000 deductible.

Contributions paid in 2006 for fiscal year 2007, ending June 30, 2007, to be recorded as an insurance expenditure totaled \$229,517. There were no unpaid contributions for the year ending June 30, 2007 and due in 2006. The Town also paid \$201,035 for workers' compensation for the year ended December 31, 2006. The trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. At this time, the Trust foresees no likelihood of any additional assessments for past years.

4-C ***Contingent Liabilities***

There are various claims and suits pending against the Town which arose in the normal course of the Town's activities. The Town has designated a contingency of \$700,000 to cover potential losses not covered by insurance carriers.

The Town has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement from the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the Town believes such disallowances, if any, will be immaterial.

4-D ***Cafeteria Benefit Plan***

Effective June 1, 1995, the Town implemented a cafeteria benefit plan pursuant to Section 125 of the IRS code. Under this plan, eligible employees may direct a contribution, made by the Town, into an account for health insurance.

All regular full-time and part-time employees employed on a regular and continuous basis, including certain contractual employees, are eligible to participate in this plan. Temporary and casual employees are not eligible. The plan year adopted by the Town begins on January 1 and ends on December 31.

SUPPLEMENTAL SCHEDULES

SCHEDULE 1
TOWN OF HAMPTON, NEW HAMPSHIRE
General Fund
Statement of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For The Fiscal Year Ended December 31, 2006

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 18,155,603	\$ 18,305,915	\$ 150,312
Timber	868	868	-
Interest and penalties on taxes	297,000	302,879	5,879
Total taxes	18,453,471	18,609,662	156,191
Licenses, permits and fees:			
Business licenses and permits	11,100	9,570	(1,530)
Motor vehicle permit fees	2,806,000	2,794,588	(11,412)
Building permits	210,000	196,609	(13,391)
Miscellaneous	24,000	26,880	2,880
Total licenses, permits and fees	3,051,100	3,027,647	(23,453)
Intergovernmental:			
State:			
Shared revenue block grant	131,260	131,260	-
Meals and rooms distribution	595,797	595,797	-
Highway block grant	260,133	260,133	-
Water pollution grants	288,324	288,324	-
Other grants	134,762	134,762	-
Federal	285,287	285,287	-
Total intergovernmental	1,695,563	1,695,563	-
Charges for services:			
Income from departments	757,701	775,354	17,653
Miscellaneous:			
Sale of municipal property	290	10,650	10,360
Interest on investments	87,500	72,163	(15,337)
Rent of property	100,230	77,491	(22,739)
Fines and forfeits	60,000	57,128	(2,872)
Franchise fee	148,753	148,753	-
Other	5,370	17,115	11,745
Total miscellaneous	402,143	383,300	(18,843)
Other financing sources:			
Interfund transfers in	703,535	762,642	59,107
Total revenues and other financing sources	\$ 25,063,513	\$ 25,254,168	\$ 190,655

See independent auditor's report, pages 1 and 2.

SCHEDULE 2
TOWN OF HAMPTON, NEW HAMPSHIRE
General Fund
Statement of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
For The Fiscal Year Ended December 31, 2006

	Encumbered From Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 122,954	\$ 126,814	\$ -	\$ (3,860)
Election and registration	1,577	208,561	200,882	2,400	6,856
Financial administration	12,390	701,830	669,311	1,751	43,158
Legal	9,250	325,722	268,438	-	66,534
Personnel administration	-	1,770,884	1,550,149	-	220,735
Planning and zoning	5,000	100,234	92,422	14,250	(1,438)
General government buildings	4,500	85,898	81,757	1,179	7,462
Cemeteries	500	92,159	92,375	-	284
Insurance, not otherwise allocated	-	2,636,657	2,434,434	-	202,223
Other	-	54,614	60,690	-	(6,076)
Total general government	<u>33,217</u>	<u>6,099,513</u>	<u>5,577,272</u>	<u>19,580</u>	<u>535,878</u>
Public safety:					
Police department	143,176	3,768,182	3,697,235	93,185	120,938
Fire department	5,523	3,352,135	3,317,637	65,571	(25,550)
Building inspection	271	188,824	189,033	-	62
Emergency management	20	3,000	5,590	-	(2,570)
Other	-	22,000	22,710	1,170	(1,880)
Total public safety	<u>148,990</u>	<u>7,334,141</u>	<u>7,232,205</u>	<u>159,926</u>	<u>91,000</u>
Highways and streets:					
Highways and streets:	18,450	1,321,029	1,094,644	110,093	134,742
Street lighting	1,004	206,750	181,698	-	26,056
Paving and reconstruction	210,223	975,019	1,175,068	111,223	(101,049)
Total highways and streets	<u>229,677</u>	<u>2,502,798</u>	<u>2,451,410</u>	<u>221,316</u>	<u>59,749</u>
Sanitation:					
Administration	291,835	1,822,010	2,185,347	73,932	(145,434)
Solid waste collection	35,200	684,451	681,296	370	37,985
Solid waste disposal	13,862	1,296,919	1,187,224	151,052	(27,495)
Sewage collection and disposal	12,754	86,600	116,623	6,510	(23,779)
Total sanitation	<u>353,651</u>	<u>3,889,980</u>	<u>4,170,490</u>	<u>231,864</u>	<u>(158,723)</u>
Health:					
Animal control	1,043	126,525	111,906	-	15,662
Health agencies and hospitals	-	139,955	139,955	-	-
Total health	<u>1,043</u>	<u>266,480</u>	<u>251,861</u>	<u>-</u>	<u>15,662</u>
Welfare:					
Administration	-	21,324	17,230	-	4,094
Direct assistance	-	92,000	107,650	-	(15,650)
Total welfare	<u>-</u>	<u>113,324</u>	<u>124,880</u>	<u>-</u>	<u>(11,556)</u>

(Continued)

SCHEDULE 2 (Continued)
TOWN OF HAMPTON, NEW HAMPSHIRE
General Fund
Statement of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2006

	Encumbered From Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Culture and recreation:					
Parks and recreation	1,871	247,047	240,997	2,229	5,692
Patriotic purposes	-	5,150	5,597	-	(447)
Other	-	500	26	-	474
Total culture and recreation	<u>1,871</u>	<u>252,697</u>	<u>246,620</u>	<u>2,229</u>	<u>5,719</u>
Debt service:					
Principal of long-term debt	-	2,278,159	2,169,158	-	109,001
Interest on long-term debt	-	994,048	902,824	-	91,224
Interest on tax anticipation notes	-	10,000	79,961	-	(69,961)
Total debt service	<u>-</u>	<u>3,282,207</u>	<u>3,151,943</u>	<u>-</u>	<u>130,264</u>
Capital outlay:					
Library repairs	68,263	59,500	37,462	55,301	35,000
Saltmarsh restoration	25,000	-	2,221	22,779	-
Ashworth Avenue sewer upgrade	26,988	-	8,294	18,694	-
Hobbs Road sewer upgrade	4,940	-	-	4,940	-
Fire truck	-	133,200	99,867	33,333	-
Cemetery improvements	-	21,000	20,385	-	615
Lot paving	-	89,000	89,000	-	-
Woodland Road property purchase	-	250,000	-	250,000	-
Total capital outlay	<u>125,191</u>	<u>552,700</u>	<u>257,229</u>	<u>385,047</u>	<u>35,615</u>
Other financing uses:					
Interfund transfers out	<u>-</u>	<u>769,673</u>	<u>724,214</u>	<u>-</u>	<u>45,459</u>
Total appropriations, expenditures, other financing uses and encumbrances	<u>\$ 893,640</u>	<u>\$ 25,063,513</u>	<u>\$ 24,188,124</u>	<u>\$ 1,019,962</u>	<u>\$ 749,067</u>

See Independent Auditor's Report, pages 1 and 2.

SCHEDULE 3
TOWN OF HAMPTON, NEW HAMPSHIRE
General Fund
Statement of Changes in Unreserved - Undesignated Fund Balance (Non-GAAP Budgetary Basis)
For The Fiscal Year Ended December 31, 2006

Unreserved, undesignated fund balance, beginning		\$ 330,229
Changes:		
2006 Budget summary:		
Revenue surplus (Schedule 1)	\$ 190,655	
Unexpended balance of appropriations (Schedule 2)	<u>749,067</u>	
2006 Budget surplus		939,722
Increase in fund balance designated for contingency		<u>(500,000)</u>
Unreserved, undesignated fund balance, ending		<u>\$ 769,951</u>

SCHEDULE 4
TOWN OF HAMPTON, NEW HAMPSHIRE
Special Revenue Funds
Combining Balance Sheet
December 31, 2006

	Recreation	Lane Memorial Library	Conservation Commission	Ambulance Service	Fire Alarm	Police Private Detail	Police Forfeiture
ASSETS							
Cash and cash equivalents	\$ 27,399	\$ 101,069	\$ 47,861	\$ 10,172	\$ 1,240	\$ 6,443	\$ 49,091
Investments	-	74,559	410,171	-	-	-	-
Accounts receivable, net of allowance for uncollectible	-	-	-	167,346	125	14,972	-
Prepaid items	7,111	-	715	-	-	-	-
Total assets	<u>\$ 34,510</u>	<u>\$ 175,628</u>	<u>\$ 458,747</u>	<u>\$ 177,518</u>	<u>\$ 1,365</u>	<u>\$ 21,415</u>	<u>\$ 49,091</u>

LIABILITIES AND EQUITY

Liabilities:							
Accounts payable	\$ 6,920	\$ 816	\$ -	\$ 4,002	\$ -	\$ -	\$ -
Accrued payroll and benefits	155	-	-	3,440	-	3,284	-
Interfund payable	-	-	150,000	-	-	-	20,891
Deferred revenue	11,075	-	-	-	-	-	24,754
Total liabilities	<u>18,150</u>	<u>816</u>	<u>150,000</u>	<u>7,442</u>	<u>-</u>	<u>3,284</u>	<u>45,645</u>

Equity:

Fund balances:							
Unreserved:							
Designated for special purposes	16,360	174,812	308,747	170,076	1,365	18,131	3,446
Total liabilities and equity	<u>\$ 34,510</u>	<u>\$ 175,628</u>	<u>\$ 458,747</u>	<u>\$ 177,518</u>	<u>\$ 1,365</u>	<u>\$ 21,415</u>	<u>\$ 49,091</u>

(Continued)

SCHEDULE 4 (Continued)
TOWN OF HAMPTON, NEW HAMPSHIRE
Special Revenue Funds
Combining Balance Sheet
December 31, 2006

	Cable T. V. Local Origination	Cemetery Trustees	Beach Infrastructure	U.S.S. Hampton	Founders' Day	Police Grants	Total
ASSETS							
Cash and cash equivalents	\$ 116,399	\$ 1,254	\$ 171,994	\$ 5,473	\$ 1,840	\$ 2,980	\$ 543,215
Investments	-	-	-	-	-	-	484,730
Accounts receivable, net of allowance for uncollectible	-	-	-	-	-	-	182,443
Prepaid items	-	-	-	-	-	-	7,826
Total assets	<u>\$ 116,399</u>	<u>\$ 1,254</u>	<u>\$ 171,994</u>	<u>\$ 5,473</u>	<u>\$ 1,840</u>	<u>\$ 2,980</u>	<u>\$ 1,218,214</u>
LIABILITIES AND EQUITY							
Liabilities:							
Accounts payable	\$ 67	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,805
Accrued payroll and benefits	-	-	-	-	-	-	6,879
Interfund payable	-	-	-	-	612	283	171,786
Deferred revenue	-	-	-	-	-	27	35,856
Total liabilities	<u>67</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>612</u>	<u>310</u>	<u>226,326</u>
Equity:							
Fund balances:							
Unreserved:							
Designated for special purposes	<u>116,332</u>	<u>1,254</u>	<u>171,994</u>	<u>5,473</u>	<u>1,228</u>	<u>2,670</u>	<u>991,888</u>
Total liabilities and equity	<u>\$ 116,399</u>	<u>\$ 1,254</u>	<u>\$ 171,994</u>	<u>\$ 5,473</u>	<u>\$ 1,840</u>	<u>\$ 2,980</u>	<u>\$ 1,218,214</u>

See Independent Auditor's Report, pages 1 and 2.

SCHEDULE 5
TOWN OF HAMPTON, NEW HAMPSHIRE
Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For The Fiscal Year Ended December 31, 2006

	Recreation	Lane Memorial Library	Conservation Commission	Ambulance Service	Fire Alarm	Police Private Detail	Police Forfeiture
Revenues:							
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,891
Charges for services	162,873	2,510	-	441,374	-	369,498	-
Miscellaneous	1,359	20,412	19,982	1,981	361	3,499	2,212
Total revenues	<u>164,232</u>	<u>22,922</u>	<u>19,982</u>	<u>443,355</u>	<u>361</u>	<u>372,997</u>	<u>25,103</u>
Expenditures:							
Current:							
Public safety	-	-	-	528,380	-	479,638	22,890
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	172,779	740,293	-	-	-	-	-
Conservation	-	-	16,526	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	<u>172,779</u>	<u>740,293</u>	<u>16,526</u>	<u>528,380</u>	<u>-</u>	<u>479,638</u>	<u>22,890</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,547)</u>	<u>(717,371)</u>	<u>3,456</u>	<u>(85,025)</u>	<u>361</u>	<u>(106,641)</u>	<u>2,213</u>
Other financing sources (uses):							
Transfers in	87	710,370	3,600	-	-	-	-
Transfers out	-	-	(150,000)	-	-	-	-
Total other financing sources and uses	<u>87</u>	<u>710,370</u>	<u>(146,400)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(8,460)	(7,001)	(142,944)	(85,025)	361	(106,641)	2,213
Fund balances, beginning	24,820	181,813	451,691	255,101	1,004	124,772	1,233
Fund balances, ending	<u>\$ 16,360</u>	<u>\$ 174,812</u>	<u>\$ 308,747</u>	<u>\$ 170,076</u>	<u>\$ 1,365</u>	<u>\$ 18,131</u>	<u>\$ 3,446</u>

(Continued)

SCHEDULE 5 (Continued)
TOWN OF HAMPTON, NEW HAMPSHIRE
Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2006

	Cable T.V.							
	Local Origination	Cemetery Trustees	Beach Infrastructure	U.S.S. Hampton	Founders' Day	Police Grants	Total	
Revenues:								
Intergovernmental	\$ -	-	-	-	-	-	-	\$ 22,891
Charges for services	49,834	-	67,869	-	-	-	-	1,093,958
Miscellaneous	4,812	-	15,148	220	5	31	-	70,022
Total revenues	<u>54,646</u>	<u>-</u>	<u>83,017</u>	<u>220</u>	<u>5</u>	<u>31</u>	<u>-</u>	<u>1,186,871</u>
Expenditures:								
Current:								
Public safety	-	-	-	-	-	-	-	1,030,908
Highways and streets	-	-	240,000	-	-	-	-	240,000
Culture and recreation	18,777	-	-	-	-	-	-	931,849
Conservation	-	-	-	-	-	-	-	16,526
Capital outlay	21,951	-	-	-	-	-	-	21,951
Total expenditures	<u>40,728</u>	<u>-</u>	<u>240,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,241,234</u>
Excess (deficiency) of revenues over (under) expenditures	<u>13,918</u>	<u>-</u>	<u>(156,983)</u>	<u>220</u>	<u>5</u>	<u>31</u>	<u>-</u>	<u>(1,054,363)</u>
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	714,057
Transfers out	-	-	-	-	-	-	-	(150,000)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>564,057</u>
Net change in fund balances	13,918	-	(156,983)	220	5	31	-	(490,306)
Fund balances, beginning	102,414	1,254	328,977	5,253	1,223	2,639	-	991,888
Fund balances, ending	<u>\$ 116,332</u>	<u>\$ 1,254</u>	<u>\$ 171,994</u>	<u>\$ 5,473</u>	<u>\$ 1,228</u>	<u>\$ 2,670</u>	<u>\$ -</u>	<u>\$ 1,218,214</u>

*SCHEDULE 6
TOWN OF HAMPTON, NEW HAMPSHIRE
Lane Memorial Library Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For The Fiscal Year Ended December 31, 2006*

Revenues:	
Charges for services:	
Copier and fax	\$ 2,510
Miscellaneous:	
Interest	6,204
Book sales and fines	9,383
Donations	1,657
Other	3,168
Total revenues	<u>22,922</u>
Expenditures:	
Current:	
Culture and recreation:	
Salaries and benefits	503,810
Administrative costs	101,388
Books, periodicals and programs	130,683
Operation and maintenance of facilities	4,412
Total expenditures	<u>740,293</u>
Deficiency of revenues under expenditures	(717,371)
Other financing sources:	
Transfers in	<u>710,370</u>
Net change in fund balance	(7,001)
Fund balance, beginning	<u>181,813</u>
Fund balance, ending	<u>\$ 174,812</u>

See Independent Auditor's Report, pages 1 and 2.

*SCHEDULE 7
TOWN OF HAMPTON, NEW HAMPSHIRE
Conservation Commission Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For The Fiscal Year Ended December 31, 2006*

Revenues:		
Miscellaneous:		
Interest	\$	19,982
Expenditures:		
Current:		
Conservation		<u>16,526</u>
Excess of revenues over expenditures		<u>3,456</u>
Other financing sources (uses):		
Transfers in		3,600
Transfers out		<u>(150,000)</u>
Total other financing sources and uses		<u>(146,400)</u>
Net change in fund balance		(142,944)
Fund balance, beginning		<u>451,691</u>
Fund balance, ending	\$	<u><u>308,747</u></u>

See Independent Auditor's Report, pages 1 and 2.

SCHEDULE 8
TOWN OF HAMPTON, NEW HAMPSHIRE
Capital Projects Funds
Combining Balance Sheet
December 31, 2006

	Wastewater Treatment Plant Improvements	Police Facility	Sewer Facilities Update	Beach Infrastructure	Public Safety Pier	Total
ASSETS						
Cash and cash equivalents	\$ 287,654	\$ 71,577	\$ 87,435	\$ 1,425,677	\$ -	\$ 1,872,343
Intergovernmental receivable	-	-	253,742	143,053	429,541	826,336
Total assets	<u>\$ 287,654</u>	<u>\$ 71,577</u>	<u>\$ 341,177</u>	<u>\$ 1,568,730</u>	<u>\$ 429,541</u>	<u>\$ 2,698,679</u>
LIABILITIES AND EQUITY						
Liabilities:						
Accounts payable	\$ -	\$ 228	\$ -	\$ 42,685	\$ 405	\$ 43,318
Contracts payable	-	-	41,182	-	36,150	77,332
Interfund payable	250,484	47,970	747,161	1,328,744	338,292	2,712,651
Retainage payable	143	5,131	87,434	228,483	24,530	345,721
Deferred revenue	37,027	-	-	-	30,164	67,191
Total liabilities	<u>287,654</u>	<u>53,329</u>	<u>875,777</u>	<u>1,599,912</u>	<u>429,541</u>	<u>3,246,213</u>
Equity:						
Fund balances:						
Reserved for encumbrances	-	-	85,251	25,370	17,975	128,596
Reserved for special purposes	-	18,248	-	-	-	18,248
Unreserved deficit	-	-	(619,851)	(56,552)	(17,975)	(694,378)
Total equity	<u>-</u>	<u>18,248</u>	<u>(534,600)</u>	<u>(31,182)</u>	<u>-</u>	<u>(547,534)</u>
Total liabilities and equity	<u>\$ 287,654</u>	<u>\$ 71,577</u>	<u>\$ 341,177</u>	<u>\$ 1,568,730</u>	<u>\$ 429,541</u>	<u>\$ 2,698,679</u>

See Independent Auditor's Report, pages 1 and 2.

SCHEDULE 9
TOWN OF HAMPTON, NEW HAMPSHIRE
Capital Projects Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2006

	Wastewater Treatment Plant Improvements	Police Facility	Sewer Facilities Update	Beach Infrastructure	Public Safety Pier	Total
Revenues:						
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ 418,787	\$ 418,787
Miscellaneous	-	482	-	-	29,835	30,317
Total revenues	<u>-</u>	<u>482</u>	<u>-</u>	<u>-</u>	<u>448,622</u>	<u>449,104</u>
Expenditures:						
Capital outlay:						
Engineering	-	-	139,977	118,972	3,018	261,967
General construction	-	-	746,857	4,587,819	445,604	5,780,280
Other	-	27,743	-	37,452	-	65,195
Total expenditures	<u>-</u>	<u>27,743</u>	<u>886,834</u>	<u>4,744,243</u>	<u>448,622</u>	<u>6,107,442</u>
Deficiency of revenues under expenditures	-	(27,261)	(886,834)	(4,744,243)	-	(5,658,338)
Other financing sources:						
General obligation debt issued	<u>-</u>	<u>-</u>	<u>363,116</u>	<u>1,093,561</u>	<u>-</u>	<u>1,456,677</u>
Net change in fund balances	-	(27,261)	(523,718)	(3,650,682)	-	(4,201,661)
Fund balances (deficit), beginning	<u>-</u>	<u>45,509</u>	<u>(10,882)</u>	<u>3,619,500</u>	<u>-</u>	<u>3,654,127</u>
Fund balances (deficit), ending	<u>\$ -</u>	<u>\$ 18,248</u>	<u>\$ (534,600)</u>	<u>\$ (31,182)</u>	<u>\$ -</u>	<u>\$ (547,534)</u>

See Independent Auditor's Report, pages 1 and 2.

SCHEDULE 10
TOWN OF HAMPTON, NEW HAMPSHIRE
Trust and Agency Funds
Combining Balance Sheet
December 31, 2006

	Trust Funds		Agency Funds	Total
	Expendable	Nonexpendable		
Assets				
Cash and cash equivalents	\$ -	\$ 569,950	\$ 315,899	\$ 885,849
Investments	740,271	16,132,421	-	16,872,692
Interest receivable	-	186,768	-	186,768
Total assets	<u>\$ 740,271</u>	<u>\$ 16,889,139</u>	<u>\$ 315,899</u>	<u>\$ 17,945,309</u>
Liabilities and Equity				
Liabilities:				
Accounts payable	\$ -	\$ 5,045	\$ -	\$ 5,045
Intergovernmental payable	34,233	-	-	34,233
Interfund payable	-	595,121	-	595,121
Escrow and performance deposits	-	-	315,899	315,899
Total liabilities	<u>34,233</u>	<u>600,166</u>	<u>315,899</u>	<u>950,298</u>
Equity:				
Fund balances:				
Reserved for endowments	-	16,288,623	-	16,288,623
Reserved for special purposes	706,038	350	-	706,388
Total equity	<u>706,038</u>	<u>16,288,973</u>	<u>-</u>	<u>16,995,011</u>
Total liabilities and equity	<u>\$ 740,271</u>	<u>\$ 16,889,139</u>	<u>\$ 315,899</u>	<u>\$ 17,945,309</u>

See Independent Auditor's Report, pages 1 and 2.

SCHEDULE 11
TOWN OF HAMPTON, NEW HAMPSHIRE
Trust Funds
Summary Schedule of Principal and Income
For the Fiscal Year Ended December 31, 2006

	Principal		Balance, December 31, 2006	Balance, January 1, 2006	Income		Balance of Principal and Income December 31, 2006
	Balance, January 1, 2006	Balance, December 31, 2006			Additions	Deductions	
Non-expendable trust funds:							
Real estate trust	\$ 16,130,746	\$ -	\$ 16,254,935	\$ -	\$ 608,061	\$ 608,061	\$ 16,254,935
Cemetery	20,550	-	20,550	259	958	992	20,775
Town needy	531	-	531	-	25	25	531
Library	7,636	-	7,636	1	356	356	7,637
Sports scholarship	4,884	87	4,971	69	228	173	5,095
Total nonexpendable trust funds	16,164,347	124,276	16,288,623	329	609,628	609,607	16,288,973
Expendable trust funds:							
Hampton Beach Village Precinct:							
Capital projects/purchases	5,156	-	5,156	7,065	569	-	12,790
Property improvements	5,000	-	5,000	176	242	-	5,418
Apparatus replacement	11,500	-	11,500	3,812	713	-	16,025
Town:							
Computer system upgrade	14,500	-	14,500	7,396	1,020	-	22,916
Cemetery burial	347,621	10,600	358,221	-	16,504	16,504	358,221
Street maintenance/reconstruction	194,102	-	194,102	116,272	14,527	-	324,901
Total expendable trust funds	577,879	10,600	588,479	134,721	33,575	16,504	740,271
Total all trust funds	\$ 16,742,226	\$ 134,876	\$ 16,877,102	\$ 135,050	\$ 643,203	\$ 626,111	\$ 17,029,244

See Independent Auditor's Report, pages 1 and 2.

*SINGLE AUDIT ACT SCHEDULES
AND INDEPENDENT AUDITOR'S REPORTS*



PLODZIK & SANDERSON

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

To the Members of the Board of Selectmen and Town Manager
Town of Hampton
Hampton, New Hampshire

We have audited the financial statements of the Town of Hampton as of and for the fiscal year ended December 31, 2006, and have issued our report thereon dated January 26, 2007. The report was adverse because the Town has not implemented the accounting standards required by GASB Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and reporting our audit of the financial statements of the Town of Hampton as of and for the fiscal year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 06-01 and 06-02 to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control. We believe both of the significant deficiencies described above constitute material weaknesses.

Compliance and Other Matters

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

*Town of Hampton
Report on Compliance and on Internal Control over Financial Reporting Based on
an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*

This report is intended solely for the information and use of management, the Board of Selectmen, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

January 26, 2007

Gregory A. Colby, CPA
PŁODZIK & SANDERSON
Professional Association



PLODZIK & SANDERSON

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Members of the Board of Selectmen and Town Manager
Town of Hampton
Hampton, New Hampshire

Compliance

We have audited the compliance of the Town of Hampton with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2006. The Town of Hampton's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Town of Hampton's management. Our responsibility is to express an opinion of the Town of Hampton's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Hampton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Hampton's compliance with those requirements.

In our opinion, the Town of Hampton complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the Town of Hampton is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Hampton's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

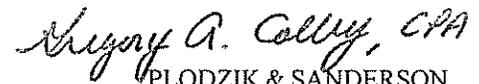
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Town of Hampton's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-01 and 06-02.

Town of Hampton
Report on Compliance with Requirements Applicable to Each Major Program
and Internal Control over Compliance in Accordance with OMB Circular A-133

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe both of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of management, the Board of Selectmen, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

January 26, 2007


GREGORY A. COLLYER, CPA
PŁODZIK & SANDERSON
Professional Association

SCHEDULE I
TOWN OF HAMPTON, NEW HAMPSHIRE
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended December 31, 2006

SECTION I - SUMMARY OF AUDITOR'S RESULTS

A. *Financial Statements*

1. The auditor's report expresses an adverse opinion on the financial statements.
2. There were two material weaknesses identified relating to the internal control over financial reporting.
3. There were no control deficiencies identified which were not considered material weaknesses relating to the internal control over financial reporting.
4. There were no instances of noncompliance material to the financial statements identified.

B. *Federal Awards*

1. There were two material weaknesses identified relating to the internal control over major programs.
2. There were no reportable conditions identified which were not considered material weaknesses relating to the internal control over major programs.
3. The auditor's report on compliance for major programs expresses an unqualified opinion.
4. Audit findings required to be reported in accordance with Circular A-133 are reported in Section III of this Schedule.
5. The program tested as a major program is CFDA No. 11.469: Congressionally Identified Awards and Projects.
6. The threshold for distinguishing between Types A and B programs was \$300,000.
7. The Town of Hampton was not determined to be a low-risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

06-01 **Criteria:** Internal controls over cash and reporting should include the monthly reconciliation of the cash balances reported in the general ledger with the treasurer's records.

Condition: Reconciliations were not performed in a timely manner between the treasurer's records and the general ledger. Many months of activity were reconciled at the end of the year.

Effect: Reports used by management during the year to make financial decisions may not be accurate. Overpayments and mispostings may occur and not be detected on a timely basis.

Recommendation: We recommend that management institute an internal control procedure consisting of reconciling the general ledger to the treasurer's monthly report as soon as possible after receipt of that report from the treasurer, which should be by the middle of the following month.

SCHEDULE I (Continued)
TOWN OF HAMPTON, NEW HAMPSHIRE
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended December 31, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

06-02 **Criteria:** Because of the special tracking and accounting treatment required for grants received from the federal government, internal controls should include procedures to make sure that management has a grand total of all federal expenditures made during the year, and can provide titles and program numbers for each award received. This information is required to determine if a single audit is required, and for the schedule of federal expenditures in a single audit report.

Condition: The Town did not have any one place where all federal grants were tracked and recorded. Grants were in different funds with no master record of what amount of federal money had been expended. Much research was necessary to determine the program names and identifying numbers for reporting purposes.

Effect: Without a Town-wide, master control of federal awards, it is possible that management might not realize when a single audit is required. It is also possible that some federal awards might be inadvertently omitted from the report of federal expenditures. Also, a great deal of time could be saved if these records were together in one place, and research did not have to be performed at year-end to ascertain titles and numbers.

Recommendation: We recommend that the Town maintain a complete file in the finance department of all federal awards applied for, granted and received. This would require communication among the finance department and all departments that obtain federal funding to ensure that any intergovernmental receipt has adequate support in its file in the finance department. It is usually easier in the application and early stages of a federal grant to get the name and number of the grant, and a separate folder should be set up for each grant with copies of all correspondence related thereto kept in it.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

06-01 See details of finding above.

06-02 See details of finding above.

SCHEDULE II
TOWN OF HAMPTON, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended December 31, 2006

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	CFDA Number	Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY		
Passed through the State of New Hampshire Bureau of Emergency Management		
State Domestic Preparedness Equipment Support Program	97.004	\$ 191,119
Disaster Grants - Public Assistance	97.036	39,746
Assistance to Firefighters Grant	97.044	44,428
DIRECT FUNDING		
U.S. DEPARTMENT OF COMMERCE - NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION (NOAA)		
Congressionally Identified Awards and Projects	11.469	418,787
U.S. DEPARTMENT OF JUSTICE		
		9,994
<i>TOTAL DIRECT FUNDING</i>		428,781
<i>GRAND TOTAL</i>		\$ 704,074

The note to the schedule of expenditures of federal awards is an important part of this schedule.

TOWN OF HAMPTON, NEW HAMPSHIRE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AS OF AND FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting whereby transactions are presented in the same way as they are included in the financial statements.