

**TOWN OF DURHAM, NEW HAMPSHIRE**

**Annual Financial Statements**

**For the Year Ended December 31, 2016**

**Town of Durham, New Hampshire**

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## INDEPENDENT AUDITORS' REPORT

To the Town Council  
Town of Durham, New Hampshire

### Additional Offices:

Nashua, NH  
Andover, MA  
Greenfield, MA  
Ellsworth, ME

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Durham, New Hampshire, as of December 31, 2016, and for the year then ended, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opin-

ion 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 (1) qualified audit opinion on the governmental activities; and (2) unmodified audit opinion on each major fund and the aggregate remaining fund information.

### **Basis for Qualified Opinion on Governmental Activities**

Management has not included any of the Town of Durham, New Hampshire's capital assets acquired in years prior to 2004, nor the accumulated depreciation and depreciation expense related to those assets in the governmental activities. Accounting principles generally accepted in the United States of America require that those assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

### **Qualified Opinion on Governmental Activities**

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph on Governmental Activities, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Town of Durham, New Hampshire, as of December 31, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Opinion on Major Funds and Aggregate Remaining Fund Information**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Town of Durham, New Hampshire, as of December 31, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

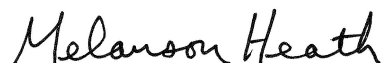
## Other Matters

### *Required Supplementary Information*

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

## Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying supplementary information appearing on pages 50 through 53 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



June 27, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Town of Durham, New Hampshire, we offer readers this narrative overview and analysis of the financial activities of the Town of Durham, New Hampshire for the fiscal year ended December 31, 2016.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

The government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities include general government, public safety, highways and streets, sanitation, water distribution and treatment, health, welfare, culture and recreation, and conservation.

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

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

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

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$10,783,953 (i.e., net position), a change of \$1,946,615 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$6,313,193, a change of \$526,265 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,896,007, a change of \$531,955 in comparison to the prior year.



- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$19,460,234, a change of \$2,047,801 in comparison to the prior year.

### C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

#### NET POSITION

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 19,232,447	\$ 18,674,434
Capital assets	38,841,893	38,374,881
Deferred outflows	<u>4,820,813</u>	<u>2,665,805</u>
Total assets and deferred outflows	62,895,153	59,715,120
Current liabilities	14,375,533	14,503,080
Noncurrent liabilities	37,313,567	34,657,667
Deferred inflows	<u>422,100</u>	<u>1,717,035</u>
Total liabilities and deferred inflows	52,111,200	50,877,782
Net position:		
Net investment in capital assets	18,240,582	16,295,295
Restricted	3,312,793	2,925,084
Unrestricted	<u>(10,769,422)</u>	<u>(10,383,041)</u>
Total net position	<u>\$ 10,783,953</u>	<u>\$ 8,837,338</u>

#### CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Charges for services	\$ 4,177,099	\$ 3,979,426
Capital grants and contributions	113,308	143,501
General revenues:		
Property taxes	8,333,384	8,144,049
Motor vehicle permit fees	1,086,696	1,007,192
Penalties and interest on taxes	192,250	229,948
Grants and contributions not restricted to specific programs	4,869,701	4,154,976
Investment income	54,493	26,585
Other	<u>394,361</u>	<u>1,023,598</u>
Total revenues	19,221,292	18,709,275

(continued)

(continued)

CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Expenses:		
General government	2,367,680	1,387,704
Public safety	8,225,936	7,300,674
Highway and streets	2,079,035	1,993,811
Sanitation	2,131,630	2,139,280
Water distribution and treatment	448,103	1,129,247
Health	21,750	20,865
Welfare	29,374	33,153
Culture and recreation	1,160,676	991,283
Conservation	61,492	62,256
Interest on long-term debt	749,001	775,343
Total expenses	<u>17,274,677</u>	<u>15,833,616</u>
Change in net position	1,946,615	2,875,659
Net position - beginning of year	<u>8,837,338</u>	<u>5,961,679</u>
Net position - end of year	<u>\$ 10,783,953</u>	<u>\$ 8,837,338</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$10,783,953, a change of \$1,946,615 from the prior year.

The largest portion of net position, \$18,240,582, reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$3,312,793, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(10,769,422) primarily resulting from the Town's unfunded net pension liability.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$1,946,615. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 708,081
Capital project fund activities, accrual basis	1,568,190
Sewer fund activities, accrual basis	227,167
Nonmajor fund activities, accrual basis	160,543
Principal debt service in excess of depreciation expense	377,097
Change in other post-employment benefits liability	(146,418)
Other	<u>(948,045)</u>
Total	<u>\$ 1,946,615</u>

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$6,313,193, a change of \$526,265 in comparison to the prior year. Key elements of this change are as follows:

General fund operations	\$ 708,081
Capital project fund activities	(569,526)
Sewer fund activities	227,167
Nonmajor fund activities	<u>160,543</u>
Total	<u>\$ 526,265</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,896,007, while total fund balance was \$4,141,477. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>12/31/16</u>	<u>12/31/15</u>	<u>Change</u>	% of Total General Fund Expenditures
Unassigned fund balance	\$ 1,896,007	\$ 1,364,052	\$ 531,955	14.2%
Total fund balance	\$ 4,141,477	\$ 3,433,396	\$ 708,081	31.0%

The total fund balance of the general fund changed by \$708,081 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$	237,088
Expenditures in excess of budget		302,103
Prior year encumbrances over current year		161,613
Change in capital reserves		22,944
Library activities		(13,567)
Other		<u>(2,100)</u>
Total	\$	<u><u>708,081</u></u>

Included in the total general fund balance are the Town's capital reserve accounts with the following balances:

	<u>12/31/16</u>	<u>12/31/15</u>	<u>Change</u>
Capital reserves	\$ <u>1,005,163</u>	\$ <u>982,219</u>	\$ <u>22,944</u>
Total	\$ <u><u>1,005,163</u></u>	\$ <u><u>982,219</u></u>	\$ <u><u>22,944</u></u>

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

There was no difference between the original budget and final amended budget.

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end amounted to \$38,841,893 (net of accumulated depreciation), a change of \$467,012 from the prior year. This investment in capital assets includes land, buildings, improvements, and machinery and equipment.

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

Governmental Activities:

New Additions:

Library Building Improvements	\$ 4,563,984
Main Street & Pettee Brook Paving	142,162
Dump Truck	139,950

New Additions to Construction in Progress:

Spruce Hole Acquifer	\$ 466,148
2016 Road Program	336,119
Crommets Creek Bridge Repair	188,081
Sludge Dewatering Upgrade	116,249
WW Diesel Generator	107,486

Conversion of Construction in Progress to

Depreciable Asset:

Library - 49 Madbury Road	\$ 4,563,984
2015 Road Resurfacing	535,229

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

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$19,460,234, all of which was backed by the full faith and credit of the government.

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

## **REQUESTS FOR INFORMATION**

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

Office of Business Manager

Town of Durham

8 Newmarket Road

Durham, NH 03824

TOWN OF DURHAM, NEW HAMPSHIRE

STATEMENT OF NET POSITION

DECEMBER 31, 2016

	Governmental Activities
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 15,062,987
Investments	2,323,643
Restricted cash	425,831
Receivables, net of allowance for uncollectibles:	
Property taxes	795,281
User fees	169,803
Intergovernmental	13,601
Other assets	262,008
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	179,293
Capital assets:	
Land and construction in progress	12,017,393
Other capital assets, net of accumulated depreciation	26,824,500
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>4,820,813</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	62,895,153
<b>LIABILITIES</b>	
Current:	
Accounts payable	819,788
Retainage payable	106,919
Accrued liabilities	397,050
Tax refunds payable	50,000
Due to school district	9,872,484
Due to other governments	53,919
Other current liabilities	1,044,483
Current portion of long-term liabilities:	
Bonds payable	1,870,882
Landfill	10,000
Compensated absence	75,734
Other liabilities	74,274
Noncurrent:	
Bonds payable, net of current portion	17,589,352
Landfill, net of current portion	170,000
Compensated absence, net of current portion	681,603
Other liabilities, net of current portion	666,970
Accrued other post employment benefits	1,514,872
Net pension liability	16,690,770
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>422,100</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	52,111,200
<b>NET POSITION</b>	
Net investment in capital assets	18,240,582
Restricted for:	
Grants and other statutory restrictions	2,905,113
Permanent funds:	
Nonexpendable	374,454
Expendable	33,226
Unrestricted	<u>(10,769,422)</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 10,783,953</u></u>

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

TOWN OF DURHAM, NEW HAMPSHIRE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
General government	\$ 2,367,680	\$ 228,866	\$ -	\$ -	\$ (2,138,814)
Public safety	8,225,936	1,000,237	-	-	(7,225,699)
Highway and streets	2,079,035	2,520	-	-	(2,076,515)
Sanitation	2,131,630	1,862,927	-	70,172	(198,531)
Water distribution and treatment	448,103	792,296	-	-	344,193
Health	21,750	-	-	-	(21,750)
Welfare	29,374	-	-	-	(29,374)
Culture and recreation	1,160,676	290,253	-	43,136	(827,287)
Conservation	61,492	-	-	-	(61,492)
Interest	749,001	-	-	-	(749,001)
Total Governmental Activities	<u>\$ 17,274,677</u>	<u>\$ 4,177,099</u>	<u>\$ -</u>	<u>\$ 113,308</u>	(12,984,270)
<b>General Revenues:</b>					
					8,333,384
					1,086,696
					192,250
					4,869,701
					54,493
					394,361
Total general revenues					<u>14,930,885</u>
Change in Net Position					1,946,615
<b>Net Position:</b>					
Beginning of year					<u>8,837,338</u>
End of year					<u>\$ 10,783,953</u>

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

## TOWN OF DURHAM, NEW HAMPSHIRE

## GOVERNMENTAL FUNDS

## BALANCE SHEET

DECEMBER 31, 2016

	<u>General</u>	<u>Capital Project</u>	<u>Sewer Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and short-term investments	\$ 12,906,094	\$ -	\$ 1,216,536	\$ 940,357	\$ 15,062,987
Investments	1,059,057	-	558,887	705,699	2,323,643
Restricted cash	425,831	-	-	-	425,831
Receivables:					-
Property taxes	1,080,722	-	-	-	1,080,722
User fees	44,405	-	34,991	90,407	169,803
Due from other funds	811,985	-	45,468	40,035	897,488
Due from other governments	12,101	1,500	-	-	13,601
Other assets	200,768	-	100	61,140	262,008
<b>TOTAL ASSETS</b>	<b>\$ 16,540,963</b>	<b>\$ 1,500</b>	<b>\$ 1,855,982</b>	<b>\$ 1,837,638</b>	<b>\$ 20,236,083</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 457,643	\$ 226,644	\$ 87,053	\$ 48,448	\$ 819,788
Retainage payable	-	106,919	-	-	106,919
Accrued liabilities	142,218	-	7,950	5,156	155,324
Tax refunds payable	50,000	-	-	-	50,000
Due to other funds	85,503	809,014	-	2,971	897,488
Due to school district	9,872,484	-	-	-	9,872,484
Due to other governments	2,714	-	51,205	-	53,919
Other liabilities	1,043,477	-	-	1,006	1,044,483
<b>TOTAL LIABILITIES</b>	<b>11,654,039</b>	<b>1,142,577</b>	<b>146,208</b>	<b>57,581</b>	<b>13,000,405</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>745,447</b>	<b>-</b>	<b>105,877</b>	<b>71,161</b>	<b>922,485</b>
<b>FUND BALANCES</b>					
Nonspendable	200,768	-	100	374,454	575,322
Restricted	412,318	173,014	992,928	394,033	1,972,293
Committed	295,113	-	604,355	718,509	1,617,977
Assigned	1,337,271	-	6,514	221,900	1,565,685
Unassigned	1,896,007	(1,314,091)	-	-	581,916
<b>TOTAL FUND BALANCES</b>	<b>4,141,477</b>	<b>(1,141,077)</b>	<b>1,603,897</b>	<b>1,708,896</b>	<b>6,313,193</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 16,540,963</b>	<b>\$ 1,500</b>	<b>\$ 1,855,982</b>	<b>\$ 1,837,638</b>	<b>\$ 20,236,083</b>

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



TOWN OF DURHAM, NEW HAMPSHIRE

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

DECEMBER 31, 2016

<b>Total governmental fund balances</b>	\$ 6,313,193
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	38,841,893
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	605,001
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(241,726)
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, capital leases, landfill closure, accrued compensated absences and net OPEB obligation are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	<u>(34,734,408)</u>
<b>Net position of governmental activities</b>	<u><u>\$ 10,783,953</u></u>

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

TOWN OF DURHAM, NEW HAMPSHIRE  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>General</u>	<u>Capital Project</u>	<u>Sewer Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Property taxes	\$ 8,135,582	\$ -	\$ -	\$ 109,813	\$ 8,245,395
Penalties, interest and other taxes	188,501	-	1,933	1,816	192,250
Charges for services	932,979	-	1,830,831	1,075,909	3,839,719
Intergovernmental	3,365,315	903,140	555,584	45,662	4,869,701
Licenses and permits	271,576	-	-	65,804	337,380
Investment income	29,773	-	9,540	15,180	54,493
Contributions	118,010	(9,596)	-	4,745	113,159
Miscellaneous	<u>1,315,544</u>	<u>1,775</u>	<u>71,672</u>	<u>24,240</u>	<u>1,413,231</u>
Total Revenues	14,357,280	895,319	2,469,560	1,343,169	19,065,328
<b>Expenditures:</b>					
Current:					
General government	2,142,710	17,106	(92)	19,466	2,179,190
Public safety	6,960,713	135,776	-	-	7,096,489
Highway and streets	1,281,192	991,745	-	-	2,272,937
Sanitation	597,734	414,281	1,080,530	-	2,092,545
Water distribution and treatment	-	632,043	-	305,881	937,924
Health	21,750	-	-	-	21,750
Welfare	29,374	-	-	-	29,374
Culture and recreation	809,840	14,352	-	199,971	1,024,163
Conservation	58,521	-	-	2,971	61,492
Debt service	<u>1,440,821</u>	<u>-</u>	<u>996,222</u>	<u>386,156</u>	<u>2,823,199</u>
Total Expenditures	<u>13,342,655</u>	<u>2,205,303</u>	<u>2,076,660</u>	<u>914,445</u>	<u>18,539,063</u>
Excess (deficiency) of revenues over expenditures	1,014,625	(1,309,984)	392,900	428,724	526,265
<b>Other Financing Sources (Uses):</b>					
Proceeds of bonds	-	-	-	-	-
Transfers in	269,302	753,060	-	40,000	1,062,362
Transfers out	<u>(575,846)</u>	<u>(12,602)</u>	<u>(165,733)</u>	<u>(308,181)</u>	<u>(1,062,362)</u>
Total Other Financing Sources (Uses)	<u>(306,544)</u>	<u>740,458</u>	<u>(165,733)</u>	<u>(268,181)</u>	<u>-</u>
Change in fund balance	708,081	(569,526)	227,167	160,543	526,265
Fund Equity, at Beginning of Year	<u>3,433,396</u>	<u>(571,551)</u>	<u>1,376,730</u>	<u>1,548,353</u>	<u>5,786,928</u>
Fund Equity, at End of Year	<u>\$ 4,141,477</u>	<u>\$ (1,141,077)</u>	<u>\$ 1,603,897</u>	<u>\$ 1,708,896</u>	<u>\$ 6,313,193</u>

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

TOWN OF DURHAM, NEW HAMPSHIRE

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

FOR THE YEAR ENDED DECEMBER 31, 2016

<b>Net changes in fund balances - total governmental funds</b>	<b>\$ 526,265</b>								
<ul style="list-style-type: none"> <li>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td>Capital outlay purchases, net of disposals</td><td style="text-align: right;">2,137,716</td></tr> <tr> <td>Depreciation</td><td style="text-align: right;">(1,670,704)</td></tr> </table> </li> <li>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate) differ between the two statements. This amount represents the net change in deferred revenue. <div style="text-align: right;">87,989</div> </li> <li>The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td>Repayments of debt</td><td style="text-align: right;">2,047,801</td></tr> <tr> <td>Amortization of bond premium</td><td style="text-align: right;">67,975</td></tr> </table> </li> <li>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <div style="text-align: right;">26,397</div> </li> <li>Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <div style="text-align: right;">(1,276,824)</div> </li> </ul>	Capital outlay purchases, net of disposals	2,137,716	Depreciation	(1,670,704)	Repayments of debt	2,047,801	Amortization of bond premium	67,975	
Capital outlay purchases, net of disposals	2,137,716								
Depreciation	(1,670,704)								
Repayments of debt	2,047,801								
Amortization of bond premium	67,975								
<b>Change in net position of governmental activities</b>	<b>\$ <u>1,946,615</u></b>								

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

TOWN OF DURHAM, NEW HAMPSHIRE

GENERAL FUND

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

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues and Other Sources:</b>				
Taxes	\$ 8,204,986	\$ 8,204,986	\$ 8,135,582	\$ (69,404)
Penalties, interest and other taxes	170,875	170,875	188,501	17,626
Charges for services	455,500	455,500	583,567	128,067
Intergovernmental	3,393,543	3,393,543	3,365,315	(28,228)
Licenses and permits	1,250,000	1,250,000	1,328,050	78,050
Investment income	9,000	9,000	10,109	1,109
Miscellaneous	195,158	195,158	234,523	39,365
Transfers in	<u>426,405</u>	<u>426,405</u>	<u>496,908</u>	<u>70,503</u>
Total Revenues and Other Sources	14,105,467	14,105,467	14,342,555	237,088
<b>Expenditures and Other Uses:</b>				
General government	2,342,059	2,342,059	2,279,311	62,748
Public safety	6,741,777	6,741,777	6,735,360	6,417
Highway and streets	1,425,448	1,425,448	1,286,888	138,560
Sanitation	643,014	643,014	598,734	44,280
Health	21,751	21,751	21,750	1
Welfare	20,000	20,000	29,374	(9,374)
Culture and recreation	373,754	373,754	354,570	19,184
Conservation	63,831	63,831	58,521	5,310
Debt service	1,456,471	1,456,471	1,440,821	15,650
Transfers out	<u>1,017,362</u>	<u>1,017,362</u>	<u>998,035</u>	<u>19,327</u>
Total Expenditures and Other Uses	<u>14,105,467</u>	<u>14,105,467</u>	<u>13,803,364</u>	<u>302,103</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>539,191</u>	\$ <u>539,191</u>

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

TOWN OF DURHAM, NEW HAMPSHIRE  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
DECEMBER 31, 2016

	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ -	\$ 133,128
Investments	<u>146,366</u>	<u>803,975</u>
Total Assets	146,366	937,103
 <b><u>LIABILITIES AND NET POSITION</u></b>		
Other liabilities	<u>-</u>	<u>937,103</u>
Total Liabilities	<u>-</u>	<u>937,103</u>
 <b><u>NET POSITION</u></b>		
Total net position held in trust	\$ <u><u>146,366</u></u>	\$ <u><u>-</u></u>

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

TOWN OF DURHAM, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Private Purpose Trust Funds</u>
<b>Additions:</b>	
Contributions	\$ 2,596
Interest income	<u>2,988</u>
Total additions	5,584
<b>Deductions:</b>	
Other	<u>10,874</u>
Total deductions	<u>10,874</u>
Net increase (decrease)	(5,290)
<b>Net position:</b>	
Beginning of year	<u>151,656</u>
End of year	<u><u>\$ 146,366</u></u>

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

## Town of Durham, New Hampshire

### Notes to Financial Statements

#### 1. **Summary of Significant Accounting Policies**

The accounting policies of the Town of Durham, New Hampshire (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units, except as indicated in Note 2. The following is a summary of the more significant policies:

##### *A. Reporting Entity*

The Town is a municipal corporation governed by an elected Town Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2016, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

##### *B. Government-wide and Fund Financial Statements*

###### Government-wide Financial Statements

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

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

###### Fund Financial Statements

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

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

#### Government-wide Financial Statements

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

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

#### Fund Financial Statements

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

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *capital projects fund* accounts for the activity pertaining to various construction/renovation projects and the purchase of vehicles and equipment of the Town.
- The *sewer fund* accounts for sewerage treatment services provided to the Town's residents.



The *private-purpose trust fund* is used to account for trust arrangements, under which principal and investment income exclusively benefits individuals, private organizations, or other governments.

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

**D. Cash and Short-Term Investments**

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

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

**E. Interfund Receivables and Payables**

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

**F. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Land Improvements	20
Buildings and building improvements	10-50
Infrastructure	15 - 25
Equipment and vehicles	5-15

#### G. Compensated Absences

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

#### H. Long-Term Obligations

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

#### I. Fund Equity

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

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

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.

- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Town Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance voted to be used in the subsequent year.
- 5) Unassigned funds are available to be spent in future periods.

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

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

#### *J. Use of Estimates*

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

## **2. Departures from Generally Accepted Accounting Principles**

The significant departures of the financial statements from generally accepted accounting principles are as follows:

The government-wide Statement of Net Position does not include any of the Town's capital assets acquired in years prior to 2004, nor the accumulated depreciation on those assets. This is a departure from generally accepted accounting principles of the United States of America.

### **3. Stewardship, Compliance, and Accountability**

#### **A. Budgetary Information**

The Town's budget is originally prepared by the Town Administrator's office with the cooperation of the various department heads and submitted to the Town Council for review. The Town Council will review the budget for the following year and make any modifications and amendments as necessary.

After reviewing the budget, the Town Council will hold public hearings for discussion.

The final version of the budget is then submitted for approval by the Town Council. The approved budget is subsequently reported to the State of New Hampshire on the statement of appropriation form in order to establish the current property tax rate.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

#### **B. Budgetary Basis**

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

#### **C. Budget/GAAP Reconciliation**

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 14,357,280	\$ 13,342,655
Other financing sources/uses (GAAP Basis)	<u>269,302</u>	<u>575,846</u>
Subtotal (GAAP Basis)	14,626,582	13,918,501
Reverse beginning of year appropriation carryforwards from expenditures	-	(15,156)
Add end-of-year appropriation carryforwards from expenditures	-	176,769
To eliminate library activity	(43,233)	(56,800)
To eliminate parking activity	(233,253)	(235,353)
To eliminate capital reserve activity	<u>(7,541)</u>	<u>15,403</u>
Budgetary Basis	<u>\$ 14,342,555</u>	<u>\$ 13,803,364</u>

*D. Deficit Fund Equity*

The following funds reflected deficit balances as of December 31, 2016:

Capital Project Fund:	
Bennett Road Culvert	\$ (6,025)
Pettee Brook Lane Corridor	(27,669)
Longmarsh Rd Culvert	(37,627)
Beech Hill & Foss Farm Tank Reconditioning	(48,402)
Fire Station (New)	(30,000)
Spruce Hole Well	(14,226)
WasteWater Diesel Generator	(121,707)
Downtown Parking Lot Pav	(120,455)
Recycling Facility Repairs	(2,112)
Woodside Drive Improve	(46,000)
Beech Hill Water Tank	(101,435)
Collection System Upgrade	(27,829)
WasteWater Facilities Plan Update	(69,900)
Confined Space Tr - Fire	(40,110)
Sidewalk Improvements	(50,917)
Crommets Creek Bridge Repair	(175,705)
Woodridge Recr Area	(86,337)
Fire Chief's Vehicle Replacement	(44,720)
Dump Truck Replacement	(139,950)
Dump Truck One Ton	(41,879)
Old Bagdad Rd Sewer Improvement	(23,217)
Drainage Project - McGrath & Thompson	(51,217)
Old Landing Parking Improvements	(775)
Culvert & Outfall Improvement	<u>(5,877)</u>
Subtotal Capital Project Fund	<u>\$ (1,314,091)</u>

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from capital reserves.

#### 4. Cash and Short-Term Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

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

As of December 31, 2016, none of the Town's bank balance of \$18,892,277 was exposed to custodial credit risk as uninsured or uncollateralized.

#### 5. Investments

##### A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Presented below is the actual rating as of year-end for each investment of the Town.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>					<u>Not Rated</u>
				<u>AA+</u>	<u>A</u>	<u>A-</u>	<u>AA-</u>	<u>BBB+</u>	
U.S. Treasury bonds	\$ 986,708	N/A	\$ -	\$ 886,678	\$ -	\$ -	\$ -	\$ -	\$ 100,030
Corporate bonds	1,156,324		-		169,144	60,216	222,877	704,087	-
Mutual funds	<u>1,130,952</u>	N/A	<u>1,130,952</u>	-	-	-	-	-	-
Total investments	\$ <u>3,273,984</u>		\$ <u>1,130,952</u>	\$ <u>886,678</u>	\$ <u>169,144</u>	\$ <u>60,216</u>	\$ <u>222,877</u>	\$ <u>704,087</u>	\$ <u>100,030</u>

##### B. 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. The Town does not have policies for custodial credit risk.

The Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the Town's brokerage firm, which is also the Counterparty to these securities.

**C. Concentration of Credit Risk**

The Town does not have an investment in one issuer greater than 5% of total investments.

**D. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does 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.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
U.S. Treasury bonds	\$ 986,708	\$ 285,317	\$ 701,390	\$ -
Corporate bonds	<u>1,156,324</u>	<u>274,273</u>	<u>773,635</u>	<u>108,417</u>
Total	<u>\$ 2,143,032</u>	<u>\$ 559,590</u>	<u>\$ 1,475,025</u>	<u>\$ 108,417</u>

**E. Foreign Currency Risk**

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

**F. Fair Value**

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

The Town has the following fair value measurements as of December 31, 2016:

<u>Description</u>	<u>Fair Value Measurements Using:</u>	
	Quoted prices in active markets for identical assets (Level 1)	
Investments by fair value level:		
Debt securities		
U.S. Treasury securities	\$          986,707	\$          986,707
Corporate bonds	1,156,325	1,156,325
Mutual Funds	<u>          1,130,952</u>	<u>          1,130,952</u>
Total	<u>\$          3,273,984</u>	

## 6. Restricted Cash

Restricted cash represents library funds held by the library trustees as of December 31, 2016.

## 7. Taxes Receivable

The Town bills property taxes semi-annually, in May and November. Property tax revenues are recognized in the fiscal year for which taxes have been levied. Property taxes are due on July 1 and December 1. Delinquent accounts are charged 12% interest. In August of the next year, a lien is recorded on delinquent property at the Registry of Deeds. The Town purchases all the delinquent accounts by paying the delinquent balance, recording costs, and accrued interest. The accounts that are lienied by the Town will be reclassified from property taxes receivable to unredeemed tax liens receivable. After this date, delinquent accounts will be charged interest at a rate of 18%. The Town annually budgets amounts (overlay for abatements) for property tax abatements and refunds.

Taxes receivable at December 31, 2016 consist of the following:

		<u>General Fund</u>
Real Estate:		
2016	\$	825,725
Tax Liens		<u>254,997</u>
Total	\$	<u>1,080,722</u>



### **Taxes Collected for Others**

The Town collects taxes for the State of New Hampshire, the Oyster River Cooperative School District and the County of Strafford. Payments to the other taxing units are normally made throughout the year. The ultimate responsibility for the collection of taxes rests with the Town.

### **8. Allowance for Doubtful Accounts**

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts:

	<u>Governmental</u>
Property taxes	\$ 106,148

### **9. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in 2016.

### **10. Interfund Fund Accounts**

#### **Receivables/Payables**

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the December 31, 2016 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 811,985	\$ 85,503
Special Revenue Funds:	40,000	2,971
Sewer Fund	45,468	-
Capital Project Funds:	-	809,014
Permanent Trust Funds:	35	-
	-	-
Total	<u>\$ 897,488</u>	<u>\$ 897,488</u>

### **Transfers**

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The sum of all transfers presented in the

table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 269,302	\$ 575,846
Sewer Fund	-	165,733
Capital Project Funds:	753,060	12,602
Nonmajor Funds:		
Special Revenue Funds:		
Water Department	40,000	75,205
Depot Road	-	89,096
Church Hill Rink	-	1,718
Downtown TIF	-	142,162
Subtotal Nonmajor Funds	<u>40,000</u>	<u>308,181</u>
Grand Total	<u>\$ 1,062,362</u>	<u>\$ 1,062,362</u>

## 11. Capital Assets

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Land improvements	\$ 450,928	\$ -	\$ -	\$ 450,928
Buildings and improvements	11,510,719	4,563,984		16,074,703
Machinery, equipment, and furnishings	6,724,509	346,160	(73,612)	6,997,057
Infrastructure	<u>10,910,313</u>	<u>766,278</u>		<u>11,676,591</u>
Total capital assets, being depreciated	29,596,469	5,676,422	(73,612)	35,199,279
Less accumulated depreciation for:				
Land improvements	(128,262)	(11,147)		(139,409)
Buildings and improvements	(1,462,370)	(448,366)		(1,910,736)
Machinery, equipment, and furnishings	(2,623,741)	(618,475)	73,612	(3,168,604)
Infrastructure	<u>(2,563,314)</u>	<u>(592,716)</u>		<u>(3,156,030)</u>
Total accumulated depreciation	<u>(6,777,687)</u>	<u>(1,670,704)</u>	<u>73,612</u>	<u>(8,374,779)</u>
Total capital assets, being depreciated, net	22,818,782	4,005,718	-	26,824,500
Capital assets, not being depreciated:				
Land	2,901,891			2,901,891
Construction in progress	<u>12,654,208</u>	<u>1,702,669</u>	<u>(5,241,375)</u>	<u>9,115,502</u>
Total capital assets, not being depreciated	<u>15,556,099</u>	<u>1,702,669</u>	<u>(5,241,375)</u>	<u>12,017,393</u>
Governmental activities capital assets, net	<u>\$ 38,374,881</u>	<u>\$ 5,708,387</u>	<u>\$ (5,241,375)</u>	<u>\$ 38,841,893</u>

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

Governmental Activities:	
General government	\$ 9,844
Public safety	303,702
Highway and streets	817,887
Sanitation	64,903
Water distribution and treatment	322,754
Culture and recreation	<u>151,614</u>
Total depreciation expense - governmental activities	\$ <u><u>1,670,704</u></u>

## 12. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of December 31, 2016, which all relate to the Town's participation in the New Hampshire Retirement System:

	<u>Entity-wide Basis</u>
	<u>Governmental</u>
	<u>Activities</u>
Pension related:	\$ -
Differences between expected and actual experience	46,383
Net difference between projected and actual investment earnings	1,044,260
Changes in assumptions	2,054,103
Changes in proportion and differences between contributions and proportionate share of contributions	1,107,489
Contributions subsequent to the measurement date	<u>568,578</u>
Total	\$ <u><u>4,820,813</u></u>

## 13. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses represent 2016 expenditures paid in 2017.

**14. Tax Refunds Payable**

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Board of Tax and Land Appeals.

**15. Other Current Liabilities**

This balance consists primarily of escrows held for several projects and deposits for school and parking impact fees.

**16. Operating Lease Obligations**

The Town is the lessee of certain equipment under an operating lease expiring in 2021. Future minimum lease payments under the operating leases consist of the following as of December 31, 2016:

<u>Fiscal</u> <u>Year</u>	<u>Operating</u> <u>Leases</u>
2017	\$ 6,763
2018	6,763
2019	6,763
2020	6,763
2021	<u>1,691</u>
Present Value of Minimum Lease Payments	\$ <u><u>28,743</u></u>

**17. Long-Term Debt**

*A. General Obligation Bonds*

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 12/31/16</u>
Capital improvements	12/31/19	3.00-4.50%	\$ 180,000
Water improvements	11/15/26	3.47%	1,375,000
Landfill closure	02/01/24	3.69%	1,480,000
Capital improvements	11/15/26	3.80-4.00%	321,102
Capital improvements	11/15/28	3.00-4.050%	1,606,171
Capital improvements	08/15/30	3.00-5.00%	750,000
Capital improvements	08/15/32	1.85-4.00%	3,300,000
Capital improvements	03/01/33	2.00-4.125%	3,005,000
Dover Rd Pump Station	10/01/32	2.72%	1,050,616
Spruce Hole Well Dev	01/01/23	1.70%	167,196
Water Meter Upgrade	01/01/23	1.70%	233,108
Capital improvements	08/15/34	3.04%	3,185,000
Old Concord Road	02/01/34	3.10%	187,041
Capital improvements	09/01/25	2.00%	<u>2,620,000</u>
Total Governmental Activities:			<u>\$ 19,460,234</u>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of December 31, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,870,882	\$ 688,144	\$ 2,559,026
2018	1,858,602	618,993	2,477,595
2019	1,791,583	550,312	2,341,895
2020	1,664,832	482,855	2,147,687
2021	1,638,356	423,044	2,061,400
2022 - 2026	6,658,872	1,308,160	7,967,032
2027 - 2031	3,000,275	487,888	3,488,163
Thereafter	<u>976,832</u>	<u>60,294</u>	<u>1,037,126</u>
Total	<u>\$ 19,460,234</u>	<u>\$ 4,619,690</u>	<u>\$ 24,079,924</u>

The following governmental funds have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of December 31, 2016:

General fund	\$ 8,333,897
Special revenue funds	<u>11,126,337</u>
Total	<u>\$ 19,460,234</u>

### C. Changes in General Long-Term Liabilities

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	Total Balance 1/1/16	Additions	Reductions	Total Balance 12/31/16	Less Current Portion	Equals Long-Term Portion 12/31/16
<u>Governmental Activities</u>						
Bonds payable	\$ 21,508,035	\$ -	\$ (2,047,801)	\$ 19,460,234	\$ (1,870,882)	\$ 17,589,352
Other:						
Landfill closure	190,000	-	(10,000)	180,000	(10,000)	170,000
Compensated absences	742,168	15,169	-	757,337	(75,734)	681,603
Bond premium	809,219	-	(67,975)	741,244	(74,274)	666,970
Accrued other post-employment benefits	1,368,454	146,418	-	1,514,872	-	1,514,872
Net pension liability	12,239,784	4,450,986	-	16,690,770	-	16,690,770
Totals	<u>\$ 36,857,660</u>	<u>\$ 4,612,573</u>	<u>\$ (2,125,776)</u>	<u>\$ 39,344,457</u>	<u>\$ (2,030,890)</u>	<u>\$ 37,313,567</u>

### 18. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The \$180,000 reported as landfill closure and postclosure care liability at December 31, 2016 represents that cumulative amount reported to date based on the use of 100% of the estimated capacity of the landfill. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

### 19. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the government that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of December 31, 2016:

	Entity-wide Basis	Fund Basis		
	Governmental Activities	Governmental Funds		
		General Fund	Sewer Fund	Nonmajor
Unavailable revenues - property taxes	\$ -	\$ 711,149	\$ -	\$ -
Taxes collected in advance	34,298	34,298	-	-
Deposits received in advance	177,038	-	105,877	71,161
Pension related:				
Differences between expected and actual experience	210,764	-	-	-
Total	<u>\$ 422,100</u>	<u>\$ 745,447</u>	<u>\$ 105,877</u>	<u>\$ 71,161</u>

## **20. Restricted Net Position**

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

## **21. Governmental Funds - Balances**

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

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

The following types of fund balances are reported at December 31, 2016:

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing special article appropriations approved at Town Meeting, capital reserve funds set aside by Town Meeting vote (now reported as part of the general fund per GASB 54), and various special revenue funds.

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

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

Following is a breakdown of the Town's fund balances at December 31, 2016:

	General Fund	Capital Project Fund	Sewer Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Prepaid expenditures	\$ 200,768	\$ -	\$ 100	\$ -	\$ 200,868
Nonexpendable permanent funds	-	-	-	374,454	374,454
Total Nonexpendable	200,768	-	100	374,454	575,322
Restricted					
Bonded projects	-	173,014	-	-	173,014
Grant proceeds	2,500	-	-	-	2,500
Special revenue funds	-	-	992,928	360,807	1,353,735
Library operations	408,621	-	-	-	408,621
Parking operations	-	-	-	-	-
Police confidential	1,197	-	-	-	1,197
Expendable permanent funds	-	-	-	33,226	33,226
Total Restricted	412,318	173,014	992,928	394,033	1,972,293
Committed					
Capital reserve funds - General Fund	295,113	-	-	-	295,113
Capital reserve funds - Sewer Fund	-	-	604,355	-	604,355
Capital reserve funds - Water Fund	-	-	-	718,509	718,509
Total Committed	295,113	-	604,355	718,509	1,617,977
Assigned					
Encumbrances:					
General Fund operations	176,769	-	-	-	176,769
Sewer operations	-	-	6,514	-	6,514
Water operations	-	-	-	221,900	221,900
Proceeds for future debt payments	450,452	-	-	-	450,452
Fire station improvements	710,050	-	-	-	710,050
Total Assigned	1,337,271	-	6,514	221,900	1,565,685
Unassigned					
Unassigned	1,896,007	(1,314,091)	-	-	581,916
Total Unassigned	1,896,007	(1,314,091)	-	-	581,916
Total Fund Balance	\$ 4,141,477	\$ (1,141,077)	\$ 1,603,897	\$ 1,708,896	\$ 6,313,193



## 22. General Fund Unassigned Fund Balance

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

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

GAAP basis balance	\$ 1,896,007
Deferred inflows	745,447
Allowance for doubtful accounts	(106,148)
Other GAAP differences	<u>(34,298)</u>
Tax Rate Setting Balance	<u>\$ 2,501,008</u>

## 23. Commitments and Contingencies

Outstanding Legal Issues – On an ongoing basis, there are typically pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of these issues would not materially affect its financial statements taken as a whole.

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

## 24. Post-Employment Healthcare and Life Insurance Benefits

### Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity

does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

*A. Plan Description*

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of January 1, 2015, the actuarial valuation date, approximately 18 retirees and 88 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

*B. Benefits Provided*

The Town provides medical, prescription drug, and mental health/substance abuse benefits to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

*C. Funding Policy*

Retirees contribute 100% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

*D. Annual OPEB Costs and Net OPEB Obligation*

The Town's 2016 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending December 31, 2016, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2015.

Annual Required Contribution (ARC)	\$ 215,150
Interest on net OPEB obligation	54,992
Adjustment to ARC	<u>(52,087)</u>
Annual OPEB cost	218,055
Contributions made	<u>(71,637)</u>
Increase in net OPEB obligation	146,418
Net OPEB obligation - beginning of year	<u>1,368,454</u>
Net OPEB obligation - end of year	<u>\$ 1,514,872</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 218,055	32.9%	\$ 1,514,872
2015	\$ 219,017	32.9%	\$ 1,368,454
2014	\$ 279,935	27.6%	\$ 1,221,074
2013	\$ 279,935	27.7%	\$ 1,018,553
2012	\$ 279,935	27.7%	\$ 816,032

*E. Funded Status and Funding Progress*

The funded status of the plan as of January 1, 2015, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 1,800,682
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,800,682</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 5,060,221</u>
UAAL as a percentage of covered payroll	<u>35.6%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The Schedule of OPEB Funding Progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*F. Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to

that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2015 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined, as the Town has not advance funded its obligation. The actuarial assumptions included a 4.5% investment rate of return and an initial annual healthcare cost trend rate of 10%, which decreases to a 5% long-term rate for all healthcare benefits after five years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 3%.

## **25. Retirement System**

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

### **A. Plan Description**

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

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

## *B. Benefits Provided*

Group I 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  $\frac{1}{60}$  or 1.667% of average final compensation (AFC), multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at  $\frac{1}{66}$  or 1.515% of AFC multiplied by years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have a nonvested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the benefit commencement date precedes the month after which the member attains 52.5 years of age by  $\frac{1}{4}$  of 1% or age 60.

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

## *C. Contributions*

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 7% for employees and teachers 11.55% for police and 11.80% for fire. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and range from 10.17% to 29.16% of covered compensation. The Town's contribution to NHRS for the year ended December 31, 2016 was \$1,115,632, which was equal to its annual required contribution.

## *D. Summary of Significant Accounting Policies*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the NHRS and additions to/deductions from NHRS' fiduciary net position have been

determined on the same basis as they are reported by NHRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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

At December 31, 2016, the Town reported a liability of \$16,690,770 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the Town's proportion was .30886632 percent.

At the most recent measurement date of June 30, 2016, the Town's proportion was .3139 percent, which was an increase of .00503368 from its previous year proportion.

For the year ended December 31, 2016, the Town recognized pension expense of \$2,242,685. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 46,383	\$ 210,763
Net difference between projected and actual earnings on pension plan investments	1,044,260	
Changes in assumptions	2,054,103	-
Changes in proportion and differences between contributions and proportionate share of contributions	1,107,489	-
Contributions subsequent to the measurement date	<u>568,578</u>	<u>-</u>
Total	<u>\$ 4,820,813</u>	<u>\$ 210,763</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in June 30, 2017. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 1,545,979
2018	977,401
2019	1,213,235
2020	831,762
2021	41,673
Total	<u>\$ 4,610,050</u>

#### *F. Actuarial Assumptions*

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent per year
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.

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

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

<u>Asset Class</u>	<u>Target Allocation Percentage</u>	<u>Weighted Average Average Long- Term Expected Real Rate of Return</u>
Large Cap Equities	22.50 %	4.25%
Small/Mid Cap Equities	<u>7.50</u>	4.50%
Total domestic equities	30.00	
Int'l Equities (unhedged)	13.00	4.75%
Emerging Int'l Equities	<u>7.00</u>	6.25%
Total international equities	20.00	
Core Bonds	5.00	0.64%
Short Duration	2.00	-0.25%
Global Multi-Sector Fixed Income	11.00	1.71%
Unconstrained Fixed Income	<u>7.00</u>	1.08%
Total fixed income	25.00	
Private equity	5.00	6.25%
Private debt	5.00	4.75%
Real estate	10.00	3.25%
Opportunistic	<u>5.00</u>	3.68%
Total alternative investments	<u>25.00</u>	
Total	<u><u>100.00</u></u> %	

**G. Discount Rate**

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



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

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.25%) or one percentage-point higher (8.25%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
June 30, 2016	\$ 21,446,503	\$ 16,690,770	\$ 12,746,644

*I. Pension Plan Fiduciary Net Position*

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

**26. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

**TOWN OF DURHAM, NEW HAMPSHIRE**  
**SCHEDULE OF OPEB FUNDING PROGRESS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2016**

(Unaudited)

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
1/1/2015	\$ -	\$ 1,800,682	\$ 1,800,682	0.0%	\$ 5,060,221	35.6%
1/1/2012	\$ -	\$ 2,441,087	\$ 2,441,087	0.0%	\$ 3,016,082	80.9%
1/1/2011	\$ -	\$ 2,165,559	\$ 2,165,559	0.0%	\$ 2,883,514	75.1%

See Independent Auditors' Report.

**TOWN OF DURHAM, NEW HAMPSHIRE**  
**SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2016**  
**(Unaudited)**

New Hampshire Retirement System					
<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	0.31390000%	\$16,690,770	\$ 6,160,829	270.92%	58.30%
June 30, 2015	0.30896632%	\$12,239,784	\$ 6,004,318	203.85%	65.50%

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

See Independent Auditors' Report.

**TOWN OF DURHAM, NEW HAMPSHIRE**

**SCHEDULE OF PENSION CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2016  
(Unaudited)**

New Hampshire Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
December 31, 2016	\$ 1,115,632	\$ (1,115,632)	\$ -	\$ 6,074,719	18.37%
December 31, 2015	\$ 1,199,885	\$ (1,199,885)	\$ -	\$ 5,982,806	20.06%

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

See Independent Auditors' Report.

TOWN OF DURHAM, NEW HAMPSHIRE  
COMBINING SCHEDULE - GENERAL FUND BALANCE SHEET

DECEMBER 31, 2016

	<u>General</u>	<u>Capital Reserves</u>	<u>Library</u>	<u>Parking</u>	<u>Police Confidential</u>	<u>Eliminate Due To/From</u>	<u>Total General</u>
<b>ASSETS</b>							
Cash and short-term investments	\$ 12,893,287	\$ -	\$ -	\$ 11,610	\$ 1,197	\$ -	\$ 12,906,094
Investments	-	1,059,057	-	-	-	-	1,059,057
Restricted cash	-	-	425,831	-	-	-	425,831
Receivables:							
Property taxes	1,080,722	-	-	-	-	-	1,080,722
User fees	44,405	-	-	-	-	-	44,405
Due from other funds	818,404	-	-	-	-	(6,419)	811,985
Due from other governments	2,306	9,795	-	-	-	-	12,101
Other assets	200,768	-	-	-	-	-	200,768
<b>TOTAL ASSETS</b>	<b>\$ 15,039,892</b>	<b>\$ 1,068,852</b>	<b>\$ 425,831</b>	<b>\$ 11,610</b>	<b>\$ 1,197</b>	<b>\$ (6,419)</b>	<b>\$ 16,540,963</b>
<b>LIABILITIES</b>							
Accounts payable	\$ 441,348	\$ 18	\$ 5,945	\$ 10,332	\$ -	\$ -	\$ 457,643
Accrued liabilities	136,094	-	4,846	1,278	-	-	142,218
Tax refunds payable	50,000	-	-	-	-	-	50,000
Due to other funds	21,832	63,671	6,419	-	-	(6,419)	85,503
Due to school district	9,872,484	-	-	-	-	-	9,872,484
Due to other governments	2,714	-	-	-	-	-	2,714
Other liabilities	1,043,477	-	-	-	-	-	1,043,477
<b>TOTAL LIABILITIES</b>	<b>11,567,949</b>	<b>63,689</b>	<b>17,210</b>	<b>11,610</b>	<b>-</b>	<b>(6,419)</b>	<b>11,654,039</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>745,447</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>745,447</b>
<b>FUND BALANCES</b>							
Nonspendable	200,768	-	-	-	-	-	200,768
Restricted	2,500	-	408,621	-	1,197	-	412,318
Committed	-	295,113	-	-	-	-	295,113
Assigned	627,221	710,050	-	-	-	-	1,337,271
Unassigned	1,896,007	-	-	-	-	-	1,896,007
<b>TOTAL FUND BALANCES</b>	<b>2,726,496</b>	<b>1,005,163</b>	<b>408,621</b>	<b>-</b>	<b>1,197</b>	<b>-</b>	<b>4,141,477</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 15,039,892</b>	<b>\$ 1,068,852</b>	<b>\$ 425,831</b>	<b>\$ 11,610</b>	<b>\$ 1,197</b>	<b>\$ (6,419)</b>	<b>\$ 16,540,963</b>

See Independent Auditors' Report.

TOWN OF DURHAM, NEW HAMPSHIRE  
 COMBINING SCHEDULE - NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2016

	Special Revenue Funds					Permanent	
	Water Department	Conservation Commission	Depot Road	Church Hill Rink	Downtown TIF	Fund	Total
<b>ASSETS</b>							
Cash and short-term investments	\$ 144,079	\$ 404,284	\$ 214,340	\$ 71,418	\$ 106,236	\$ -	\$ 940,357
Investments	296,054	-	-	-	-	409,645	705,699
Receivables:							
User fees	30,032	-	-	60,375	-	-	90,407
Due from other funds	40,000	-	-	-	-	35	40,035
Other assets	61,140	-	-	-	-	-	61,240
<b>TOTAL ASSETS</b>	<b>\$ 571,305</b>	<b>\$ 404,284</b>	<b>\$ 214,340</b>	<b>\$ 131,793</b>	<b>\$ 106,236</b>	<b>\$ 409,680</b>	<b>\$ 1,837,738</b>
<b>LIABILITIES</b>							
Accounts payable	\$ 35,224	\$ -	\$ 186	\$ 11,038	\$ -	\$ 2,000	\$ 48,448
Accrued liabilities	2,407	-	-	2,749	-	-	5,156
Due to other funds	-	2,971	-	-	-	-	2,971
Other liabilities	-	1,006	-	-	-	-	1,006
<b>TOTAL LIABILITIES</b>	<b>37,631</b>	<b>3,977</b>	<b>186</b>	<b>13,787</b>	<b>-</b>	<b>2,000</b>	<b>57,581</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>64,361</b>	<b>-</b>	<b>-</b>	<b>6,800</b>	<b>-</b>	<b>-</b>	<b>71,161</b>
<b>FUND BALANCES</b>							
Nonspendable	-	-	-	-	-	374,454	374,454
Restricted	133,259	400,307	214,154	111,206	106,236	33,226	998,388
Committed	114,154	-	-	-	-	-	114,154
Assigned	221,900	-	-	-	-	-	221,900
<b>TOTAL FUND BALANCES</b>	<b>469,313</b>	<b>400,307</b>	<b>214,154</b>	<b>111,206</b>	<b>106,236</b>	<b>407,680</b>	<b>1,708,896</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 571,305</b>	<b>\$ 404,284</b>	<b>\$ 214,340</b>	<b>\$ 131,793</b>	<b>\$ 106,236</b>	<b>\$ 409,680</b>	<b>\$ 1,837,638</b>

See Independent Auditors' Report.

## TOWN OF DURHAM, NEW HAMPSHIRE

## GENERAL FUND

## COMBINING SCHEDULE - GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>General</u>	<u>Capital Reserves</u>	<u>Library</u>	<u>Parking</u>	<u>Police Confidential</u>	<u>Eliminate Transfers</u>	<u>Total General</u>
<b>Revenues:</b>							
Property taxes	\$ 8,135,582	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,135,582
Penalties, interest and other taxes	188,501	-	-	-	-	-	188,501
Charges for services	583,567	-	-	349,412	-	-	932,979
Intergovernmental	3,365,315	-	-	-	-	-	3,365,315
Licenses and permits	241,354	-	-	30,222	-	-	271,576
Investment income	10,109	19,567	97	-	-	-	29,773
Contributions	6,000	68,874	43,136	-	-	-	118,010
Miscellaneous	<u>1,315,219</u>	<u>-</u>	<u>-</u>	<u>325</u>	<u>-</u>	<u>-</u>	<u>1,315,544</u>
Total Revenues	13,845,647	88,441	43,233	379,959	-	-	14,357,280
<b>Expenditures:</b>							
Current:							
General government	2,118,113	24,597	-	-	-	-	2,142,710
Public safety	6,735,360	-	-	225,353	-	-	6,960,713
Highway and streets	1,281,192	-	-	-	-	-	1,281,192
Sanitation	597,734	-	-	-	-	-	597,734
Health	21,750	-	-	-	-	-	21,750
Welfare	29,374	-	-	-	-	-	29,374
Culture and recreation	360,851	-	448,989	-	-	-	809,840
Conservation	58,521	-	-	-	-	-	58,521
Debt service	<u>1,440,821</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,440,821</u>
Total Expenditures	<u>12,643,716</u>	<u>24,597</u>	<u>448,989</u>	<u>225,353</u>	<u>-</u>	<u>-</u>	<u>13,342,655</u>
Excess (deficiency) of revenues over expenditures	1,201,931	63,844	(405,756)	154,606	-	-	1,014,625
<b>Other Financing Sources (Uses):</b>							
Transfers in	496,908	40,205	426,142	-	-	(693,953)	269,302
Transfers out	<u>(998,035)</u>	<u>(81,105)</u>	<u>(33,953)</u>	<u>(156,706)</u>	<u>-</u>	<u>693,953</u>	<u>(575,846)</u>
Total Other Financing Sources (Uses)	<u>(501,127)</u>	<u>(40,900)</u>	<u>392,189</u>	<u>(156,706)</u>	<u>-</u>	<u>-</u>	<u>(306,544)</u>
Change in fund balance	700,804	22,944	(13,567)	(2,100)	-	-	708,081
Fund Equity, at Beginning of Year	<u>2,025,692</u>	<u>982,219</u>	<u>422,188</u>	<u>2,100</u>	<u>1,197</u>	<u>-</u>	<u>3,433,396</u>
Fund Equity, at End of Year	<u>\$ 2,726,496</u>	<u>\$ 1,005,163</u>	<u>\$ 408,621</u>	<u>\$ -</u>	<u>\$ 1,197</u>	<u>\$ -</u>	<u>\$ 4,141,477</u>

See Independent Auditors' report.

## TOWN OF DURHAM, NEW HAMPSHIRE

## NONMAJOR GOVERNMENTAL FUNDS

## COMBINING SCHEDULE - NONMAJOR GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue Funds						
	Water Department	Conservation Commission	Depot Road	Church Hill Rink	Downtown TIF	Permanent Fund	Total
<b>Revenues:</b>							
Property taxes	\$ -	\$ 4,200	\$ -	\$ -	\$ 105,613	\$ -	\$ 109,813
Penalties, interest and other taxes	1,816	-	-	-	-	-	1,816
Charges for services	792,296	-	49,674	233,939	-	-	1,075,909
Intergovernmental	45,662	-	-	-	-	-	45,662
Licenses and permits	-	-	65,804	-	-	-	65,804
Investment income	4,905	2,082	-	-	-	8,193	15,180
Contributions	-	-	-	-	-	4,745	4,745
Miscellaneous	20,280	400	-	3,560	-	-	24,240
Total Revenues	864,959	6,682	115,478	237,499	105,613	12,938	1,343,169
<b>Expenditures:</b>							
Current:							
General government	(439)	-	16,483	-	-	3,422	19,466
Water distribution and treatment	305,881	-	-	-	-	-	305,881
Culture and recreation	-	-	-	199,971	-	-	199,971
Conservation	-	2,971	-	-	-	-	2,971
Debt service	382,423	-	-	3,733	-	-	386,156
Total Expenditures	687,865	2,971	16,483	203,704	-	3,422	914,445
Excess (deficiency) of revenues over expenditures	177,094	3,711	98,995	33,795	105,613	9,516	428,724
<b>Other Financing Sources (Uses):</b>							
Transfers in	40,000	-	-	-	-	-	40,000
Transfers out	(75,205)	-	(89,096)	(1,718)	(142,162)	-	(308,181)
Total Other Financing Sources (Uses)	(35,205)	-	(89,096)	(1,718)	(142,162)	-	(268,181)
Change in fund balance	141,889	3,711	9,899	32,077	(36,549)	9,516	160,543
Fund Equity, at Beginning of Year	327,424	396,596	204,255	79,129	142,785	398,164	1,548,353
Fund Equity, at End of Year	\$ 469,313	\$ 400,307	\$ 214,154	\$ 111,206	\$ 106,236	\$ 407,680	\$ 1,708,896

See Independent Auditors' report.