

TOWN OF EXETER, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended December 31, 2016

TOWN OF EXETER, NEW HAMPSHIRE

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues and Other Financing Sources, and Expenditures and Other Financing Uses - Budget and Actual – General Fund	18
Proprietary Funds:	
Statement of Net Position	19
Statement of Revenues, Expenses, and Changes in Fund Net Position	20
Statement of Cash Flows	21
Fiduciary Funds:	
Statement of Fiduciary Net Position	22
Statement of Changes in Fiduciary Net Position	23
Notes to Financial Statements	24
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of OPEB Funding Progress	53
Schedule of Proportionate Share of the Net Pension Liability	54
Schedule of Pension Contributions	55

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Exeter, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Exeter, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Town's preparation and

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Exeter, New Hampshire, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof 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, the 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Melanson Heath

September 14, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town, we offer readers this narrative overview and analysis of the financial activities of the Town for the 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).

Both of 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 (business-type activities). The governmental activities include general government, public safety, public works, health and human services, culture and recreation, sanitation, conservation and debt service interest. The business-type activities include water and sewer activities.

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 three categories: governmental funds, proprietary 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.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water and sewer operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds.

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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$16,830,198 (i.e., net position), a change of \$1,741,061 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$4,844,059, a change of \$(607,427) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,208,915, a change of \$202,410.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$17,635,577, a change of \$3,367,845 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years (in thousands):

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 21,634	\$ 20,172	\$ 3,543	\$ 7,481	\$ 25,177	\$ 27,653
Capital assets	20,563	17,922	27,670	24,854	48,233	42,776
Total assets	42,197	38,094	31,213	32,335	73,410	70,429
Deferred outflows of resources	4,456	1,637	441	162	4,897	1,799
Other liabilities	15,522	13,648	3,946	9,222	19,468	22,870
Long term liabilities	24,571	19,451	17,174	12,788	41,745	32,239
Total liabilities	40,093	33,099	21,120	22,010	61,213	55,109
Deferred inflows of resources	240	1,850	24	180	264	2,030
Net position:						
Net investments in capital assets	17,333	15,359	9,655	8,366	26,988	23,725
Restricted	1,560	1,127	-	-	1,560	1,127
Unrestricted	(12,573)	(11,704)	855	1,941	(11,718)	(9,763)
Total net position	\$ 6,320	\$ 4,782	\$ 10,510	\$ 10,307	\$ 16,830	\$ 15,089

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 \$16,830,198, a change of \$1,741,061 from the prior year.

The largest portion of net position, \$26,987,617, 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, \$1,560,894, 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 \$(11,718,313) which primarily results from the Town's net pension liability and net OPEB obligation.

	<u>CHANGE IN NET POSITION</u>					
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,295	\$ 2,607	\$ 4,862	\$ 4,764	\$ 8,157	\$ 7,371
Operating grants and contributions	280	275	-	-	280	275
Capital grants and contributions	1,404	10	89	16	1,493	26
General revenues:						
Property taxes	11,667	11,819	-	-	11,667	11,819
Motor vehicle registrations	2,631	2,499	-	-	2,631	2,499
Penalties, interest and other taxes	293	300	-	-	293	300
Grants and contributions not restricted to specific programs	1,048	965	-	-	1,048	965
Investment income	41	(13)	-	-	41	(13)
Miscellaneous	314	439	-	-	314	439
Total revenues	20,973	18,901	4,951	4,780	25,924	23,681

(continued)

(continued)

	CHANGE IN NET POSITION					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Expenses:						
General government	2,793	3,209	-	-	2,793	3,209
Public safety	8,590	8,783	-	-	8,590	8,783
Public works	4,174	4,209	-	-	4,174	4,209
Health and human services	354	460	-	-	354	460
Culture and recreation	2,178	2,072	-	-	2,178	2,072
Sanitation	877	848	-	-	877	848
Conservation	163	151	-	-	163	151
Interest	130	124	-	-	130	124
Water services	-	-	2,843	3,012	2,843	3,012
Sewer services	-	-	2,081	1,431	2,081	1,431
Total expenses	<u>19,259</u>	<u>19,856</u>	<u>4,924</u>	<u>4,443</u>	<u>24,183</u>	<u>24,299</u>
Change in net position before transfers	1,714	(955)	27	337	1,741	(618)
Transfers in (out)	<u>(176)</u>	<u>287</u>	<u>176</u>	<u>(287)</u>	<u>-</u>	<u>-</u>
Change in net position	1,538	(668)	203	50	1,741	(618)
Net position - beginning of year	<u>4,782</u>	<u>5,450</u>	<u>10,307</u>	<u>10,257</u>	<u>15,089</u>	<u>15,707</u>
Net position - end of year	<u>\$ 6,320</u>	<u>\$ 4,782</u>	<u>\$ 10,510</u>	<u>\$ 10,307</u>	<u>\$ 16,830</u>	<u>\$ 15,089</u>

Governmental activities. Governmental activities for the year resulted in a change in net position of \$1,537,756. Key elements of this change are as follows:

Increase in net pension liability, net of deferred outflows/inflows	\$ (864,256)
Capital assets acquired with current year revenues	2,690,791
Principal debt service expense in excess of depreciation expense	(156,347)
Other	<u>(132,432)</u>
Total	<u>\$ 1,537,756</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$203,305. Key elements of this change are as follows:

Water operations	\$ 100,405
Sewer operations	<u>102,900</u>
Total	<u>\$ 203,305</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 \$4,844,059, a change of \$(607,427) in comparison to the prior year. Key elements of this change are as follows:

General fund operations	\$	221,639
Capital project fund operations		(1,280,045)
Nonmajor fund activities		<u>450,979</u>
Total	\$	<u><u>(607,427)</u></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 \$2,208,915, while total fund balance was \$2,996,141. 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	\$ 2,208,915	\$ 2,006,505	\$ 202,410	12.5%
Total fund balance	\$ 2,996,141	\$ 2,774,502	\$ 221,639	16.9%

The total fund balance of the general fund changed by \$221,639 during the current fiscal year. Key factors in this change are as follows:

Use of fund balance as a funding source	\$	(725,000)
Revenues greater than budget		593,337
Expenditures less than budget		414,824
Change in capital reserves		(85,537)
Other		<u>24,015</u>
Total	\$	<u><u>221,639</u></u>

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

	<u>12/31/16</u>	<u>12/31/15</u>	<u>Change</u>
Capital reserves	\$ <u>137,794</u>	\$ <u>223,331</u>	\$ <u>(85,537)</u>
Total	\$ <u><u>137,794</u></u>	\$ <u><u>223,331</u></u>	\$ <u><u>(85,537)</u></u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$855,420, a change of \$(1,085,850) over the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There were no differences, other than reclassifications, between the original budget and the 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 \$48,233,340 (net of accumulated depreciation), a change of \$5,457,265 from the prior year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure.

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

- Infrastructure upgrades such as bridge work, the removal of the Great Dam, and various culvert projects
- Waterline and Sewerline replacements
- Design costs for new Wastewater Treatment Plant
- Vehicles and equipment purchases

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

Credit Rating. The Town of Exeter had an “A1” Moody’s rating for general obligation debt at year-end.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$17,635,577, 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 Financial Statements.

REQUESTS FOR INFORMATION

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

Town Manager
Town of Exeter, New Hampshire
10 Front Street
Exeter, New Hampshire 03833

TOWN OF EXETER, NEW HAMPSHIRE
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 19,264,891	\$ 2,987,631	\$ 22,252,522
Investments	367,385	-	367,385
Receivables, net of allowance for uncollectibles:			
Property taxes	1,015,933	-	1,015,933
User fees	-	543,453	543,453
Departmental and other	184,088	-	184,088
Intergovernmental	255,414	-	255,414
Other assets	102,103	12,226	114,329
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	444,367	-	444,367
Capital assets:			
Land and construction in progress	13,419,496	8,375,419	21,794,915
Capital assets, net of accumulated depreciation	7,143,396	19,295,029	26,438,425
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	<u>4,455,592</u>	<u>440,664</u>	<u>4,896,256</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
	46,652,665	31,654,422	78,307,087
LIABILITIES			
Current:			
Accounts payable	682,390	474,015	1,156,405
Retainage payable	18,815	23,555	42,370
Accrued liabilities	259,910	148,169	408,079
Due to other governments	14,525,650	-	14,525,650
Notes payable	-	3,300,000	3,300,000
Other liabilities	34,718	-	34,718
Current portion of long-term liabilities:			
Bonds payable	409,800	1,323,287	1,733,087
Other liabilities	379,043	104,176	483,219
Noncurrent:			
Bonds payable, net of current portion	2,376,000	13,526,490	15,902,490
Net OPEB obligation	1,085,271	181,050	1,266,321
Net pension liability	19,043,564	1,883,430	20,926,994
Other liabilities, net of current portion	1,277,185	156,115	1,433,300
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	<u>240,473</u>	<u>23,783</u>	<u>264,256</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
	40,332,819	21,144,070	61,476,889
NET POSITION			
Net investment in capital assets	17,332,685	9,654,932	26,987,617
Restricted for:			
Grants and other statutory restrictions	1,039,174	-	1,039,174
Permanent funds:			
Nonexpendable	53,454	-	53,454
Expendable	468,266	-	468,266
Unrestricted	<u>(12,573,733)</u>	<u>855,420</u>	<u>(11,718,313)</u>
TOTAL NET POSITION	<u>\$ 6,319,846</u>	<u>\$ 10,510,352</u>	<u>\$ 16,830,198</u>

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

TOWN OF EXETER, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net(Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 2,793,180	\$ 382,106	\$ 111,223	\$ -	\$ (2,299,851)	\$ -	\$ (2,299,851)
Public safety	8,589,912	1,779,688	9,972	-	(6,800,252)	-	(6,800,252)
Public works	4,174,589	515,397	-	1,404,017	(2,255,175)	-	(2,255,175)
Health and human services	354,521	7,822	500	-	(346,199)	-	(346,199)
Culture and recreation	2,177,963	585,260	158,753	-	(1,433,950)	-	(1,433,950)
Sanitation	876,937	24,273	-	-	(852,664)	-	(852,664)
Conservation	163,214	-	-	400	(162,814)	-	(162,814)
Interest	130,160	-	-	-	(130,160)	-	(130,160)
Total Governmental Activities	19,260,476	3,294,546	280,448	1,404,417	(14,281,065)	-	(14,281,065)
Business-Type Activities:							
Water services	2,842,510	2,748,142	-	19,014	-	(75,354)	(75,354)
Sewer services	2,081,431	2,113,794	-	70,537	-	102,900	102,900
Total Business-Type Activities	4,923,941	4,861,936	-	89,551	-	27,546	27,546
Total	\$ 24,184,417	\$ 8,156,482	\$ 280,448	\$ 1,493,968	(14,281,065)	27,546	(14,253,519)
General Revenues and Transfers:							
Property taxes					11,666,831	-	11,666,831
Motor vehicle registrations					2,630,860	-	2,630,860
Penalties, interest and other taxes					292,937	-	292,937
Grants and contributions not restricted to specific programs					1,048,111	-	1,048,111
Investment income					41,473	-	41,473
Miscellaneous					314,368	-	314,368
Transfers, net					(175,759)	175,759	-
Total general revenues and transfers					15,818,821	175,759	15,994,580
Change in Net Position					1,537,756	203,305	1,741,061
Net Position:							
Beginning of year					4,782,090	10,307,047	15,089,137
End of year					\$ 6,319,846	\$ 10,510,352	\$ 16,830,198

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

TOWN OF EXETER, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2016

	<u>General</u>	<u>Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 17,814,878	\$ 287,465	\$ 1,162,548	\$ 19,264,891
Investments	-	-	367,385	367,385
Receivables:				
Property taxes	1,623,768	-	-	1,623,768
Departmental	944	-	183,144	184,088
Intergovernmental	-	216,756	38,658	255,414
Other assets	<u>62,065</u>	<u>-</u>	<u>40,038</u>	<u>102,103</u>
TOTAL ASSETS	<u>\$ 19,501,655</u>	<u>\$ 504,221</u>	<u>\$ 1,791,773</u>	<u>\$ 21,797,649</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 436,273	\$ 198,382	\$ 47,735	\$ 682,390
Retainage payable	-	18,815	-	18,815
Accrued liabilities	213,515	-	-	213,515
Due to other governments	14,525,650	-	-	14,525,650
Other liabilities	<u>34,718</u>	<u>-</u>	<u>-</u>	<u>34,718</u>
TOTAL LIABILITIES	15,210,156	217,197	47,735	15,475,088
 DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	1,295,358	-	183,144	1,478,502
Fund Balances:				
Nonspendable	649,432	-	53,454	702,886
Restricted	-	936,456	1,558,040	2,494,496
Committed	137,794	-	-	137,794
Unassigned	<u>2,208,915</u>	<u>(649,432)</u>	<u>(50,600)</u>	<u>1,508,883</u>
TOTAL FUND BALANCES	<u>2,996,141</u>	<u>287,024</u>	<u>1,560,894</u>	<u>4,844,059</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 19,501,655</u>	<u>\$ 504,221</u>	<u>\$ 1,791,773</u>	<u>\$ 21,797,649</u>

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

TOWN OF EXETER, NEW HAMPSHIRE
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

DECEMBER 31, 2016

Total governmental fund balances	\$	4,844,059
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	20,562,892	
<ul style="list-style-type: none"> • Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	1,315,034	
<ul style="list-style-type: none"> • Deferred outflows of resources related to pensions resulting from expected vs. actual experience, projected vs. actual earnings, changes in assumptions, changes in proportion and contributions subsequent to the measurement date will be recognized as an increase of pension expense in future years. 	4,455,592	
<ul style="list-style-type: none"> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	(46,395)	
<ul style="list-style-type: none"> • Long-term liabilities, including capital leases and compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds. 		
Bonds payable	(2,785,800)	
Capital leases	(1,129,464)	
Compensated absences	(526,764)	
Net OPEB obligation	(1,085,271)	
Net pension liability	(19,043,564)	
<ul style="list-style-type: none"> • Deferred inflows of resources related to pensions resulting from expected vs. actual experience will be recognized as a reduction of pension expense in future years. 	<u>(240,473)</u>	
Net position of governmental activities	\$	<u><u>6,319,846</u></u>

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

TOWN OF EXETER, 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 Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 11,590,267	\$ -	\$ 82,293	\$ 11,672,560
Motor vehicle registrations	2,630,860	-	-	2,630,860
Penalties, interest, and other taxes	247,211	-	-	247,211
Charges for services	882,618	-	1,624,641	2,507,259
Intergovernmental	1,098,123	1,384,921	29,568	2,512,612
Licenses and permits	604,143	-	-	604,143
Investment income	5,632	-	35,841	41,473
Contributions	61,211	-	159,153	220,364
Miscellaneous	314,368	-	-	314,368
	<u>17,434,433</u>	<u>1,384,921</u>	<u>1,931,496</u>	<u>20,750,850</u>
Total Revenues				
Expenditures:				
Current:				
General government	2,735,371	-	154,438	2,889,809
Public safety	7,536,348	-	504,784	8,041,132
Public works	4,079,163	-	17,380	4,096,543
Health and human services	230,969	-	7,572	238,541
Culture and recreation	1,269,957	-	826,831	2,096,788
Sanitation	876,937	-	-	876,937
Conservation	141,219	-	11,284	152,503
Debt service	604,931	-	-	604,931
Capital outlay	212,076	2,546,966	-	2,759,042
	<u>17,686,971</u>	<u>2,546,966</u>	<u>1,522,289</u>	<u>21,756,226</u>
Total Expenditures				
Excess (deficiency) of revenues over expenditures	(252,538)	(1,162,045)	409,207	(1,005,376)
Other Financing Sources (Uses):				
Capital lease proceeds	573,708	-	-	573,708
Transfers in	424,604	150,000	198,376	772,980
Transfers out	(524,135)	(268,000)	(156,604)	(948,739)
	<u>474,177</u>	<u>(118,000)</u>	<u>41,772</u>	<u>397,949</u>
Total Other Financing Sources (Uses)				
Change in fund balance	221,639	(1,280,045)	450,979	(607,427)
Fund Balance, at Beginning of Year, as reclassified	<u>2,774,502</u>	<u>1,567,069</u>	<u>1,109,915</u>	<u>5,451,486</u>
Fund Balance, at End of Year	<u>\$ 2,996,141</u>	<u>\$ 287,024</u>	<u>\$ 1,560,894</u>	<u>\$ 4,844,059</u>

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

TOWN OF EXETER, 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

Net changes in fund balances - Total governmental funds	\$ (607,427)																										
<ul style="list-style-type: none"> • 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 border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay</td> <td style="text-align: right;">3,276,374</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(623,947)</td> </tr> <tr> <td>Loss on disposals</td> <td style="text-align: right;">(11,875)</td> </tr> </table> • 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 (e.g., property taxes) differ between the two statements. This amount represents the net change in unavailable revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">223,141</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Repayments of bonds</td> <td style="text-align: right;">467,600</td> </tr> <tr> <td>Repayments of capital leases</td> <td style="text-align: right;">353,028</td> </tr> <tr> <td>Issuance of capital leases</td> <td style="text-align: right;">(573,708)</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">7,171</td> </tr> </table> • Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table border="0" style="margin-left: 40px;"> <tr> <td>Compensated absences</td> <td style="text-align: right;">(21,755)</td> </tr> <tr> <td>Net OPEB obligation</td> <td style="text-align: right;">(86,590)</td> </tr> <tr> <td>Net pension liability</td> <td style="text-align: right;">(5,258,035)</td> </tr> <tr> <td>Increase in deferred outflows of resources related to pensions</td> <td style="text-align: right;">3,703,779</td> </tr> <tr> <td>Decrease in deferred inflows of resources related to pensions</td> <td style="text-align: right;"><u>690,000</u></td> </tr> </table> 		Capital outlay	3,276,374	Depreciation	(623,947)	Loss on disposals	(11,875)		223,141	Repayments of bonds	467,600	Repayments of capital leases	353,028	Issuance of capital leases	(573,708)		7,171	Compensated absences	(21,755)	Net OPEB obligation	(86,590)	Net pension liability	(5,258,035)	Increase in deferred outflows of resources related to pensions	3,703,779	Decrease in deferred inflows of resources related to pensions	<u>690,000</u>
Capital outlay	3,276,374																										
Depreciation	(623,947)																										
Loss on disposals	(11,875)																										
	223,141																										
Repayments of bonds	467,600																										
Repayments of capital leases	353,028																										
Issuance of capital leases	(573,708)																										
	7,171																										
Compensated absences	(21,755)																										
Net OPEB obligation	(86,590)																										
Net pension liability	(5,258,035)																										
Increase in deferred outflows of resources related to pensions	3,703,779																										
Decrease in deferred inflows of resources related to pensions	<u>690,000</u>																										
Change in net position of governmental activities	\$ <u><u>1,537,756</u></u>																										

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

TOWN OF EXETER, NEW HAMPSHIRE

GENERAL FUND

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

FOR THE YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 11,509,881	\$ 11,509,881	\$ 11,509,881	\$ -
Interest, penalties, and other taxes	232,290	232,290	247,211	14,921
Charges for services	768,960	768,960	882,618	113,658
Intergovernmental	1,316,703	1,085,703	1,098,123	12,420
Licenses and permits	2,875,350	2,875,350	3,235,003	359,653
Investment income	1,000	1,000	964	(36)
Miscellaneous	305,215	305,215	314,368	9,153
Total Revenues	17,009,399	16,778,399	17,288,168	509,769
Expenditures:				
Current:				
General government	2,643,242	2,642,934	2,688,364	(45,430)
Public safety	7,589,134	7,601,608	7,217,681	383,927
Public works	3,880,582	3,887,791	3,780,974	106,817
Sanitation	847,765	847,765	876,937	(29,172)
Health and human services	179,057	179,057	148,123	30,934
Welfare	64,666	64,666	82,846	(18,180)
Culture and recreation	1,447,917	1,448,775	1,438,026	10,749
Conservation	143,681	146,875	141,219	5,656
Capital outlay	391,099	367,672	387,076	(19,404)
Debt service:				
Principal	577,600	577,600	577,600	-
Interest	203,091	203,091	203,091	-
Total Expenditures	17,967,834	17,967,834	17,541,937	425,897
Other financing sources (uses):				
Transfers in	233,435	464,435	548,003	83,568
Transfers out	-	-	(11,073)	(11,073)
Use of fund balance	725,000	725,000	-	(725,000)
Total Other Financing Sources (Uses)	958,435	1,189,435	536,930	(652,505)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 283,161	\$ 283,161

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

TOWN OF EXETER, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

DECEMBER 31, 2016

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 920,881	\$ 2,066,750	\$ 2,987,631
User fees, net of allowance for uncollectibles	270,039	273,414	543,453
Intergovernmental receivable	10,000	-	10,000
Prepaid items	1,113	1,113	2,226
Total current assets	1,202,033	2,341,277	3,543,310
Noncurrent:			
Land and construction in progress	7,873,601	501,818	8,375,419
Capital assets, net of accumulated depreciation	8,526,105	10,768,924	19,295,029
Total noncurrent assets	16,399,706	11,270,742	27,670,448
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	244,813	195,851	440,664
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	17,846,552	13,807,870	31,654,422
LIABILITIES			
Current:			
Accounts payable	374,022	99,993	474,015
Retainage payable	23,165	390	23,555
Accrued liabilities	92,929	55,240	148,169
Notes payable	-	3,300,000	3,300,000
Current portion of long-term liabilities:			
Bonds payable	869,583	453,704	1,323,287
Other liabilities	15,246	88,930	104,176
Total current liabilities	1,374,945	3,998,257	5,373,202
Noncurrent:			
Bonds payable, net of current portion	10,422,178	3,104,312	13,526,490
Net OPEB obligation	99,334	81,716	181,050
Net pension liability	1,046,350	837,080	1,883,430
Other liabilities, net of current portion	42,252	113,863	156,115
Total noncurrent liabilities	11,610,114	4,136,971	15,747,085
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	13,213	10,570	23,783
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	12,998,272	8,145,798	21,144,070
NET POSITION			
Net investment of capital assets	5,107,945	4,546,987	9,654,932
Unrestricted	(259,665)	1,115,085	855,420
TOTAL NET POSITION	\$ 4,848,280	\$ 5,662,072	\$ 10,510,352

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

TOWN OF EXETER, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenues:			
Charges for services	\$ 2,727,971	\$ 2,109,897	\$ 4,837,868
Other	<u>20,171</u>	<u>3,897</u>	<u>24,068</u>
Total Operating Revenues	2,748,142	2,113,794	4,861,936
Operating Expenses:			
Operating expenses	2,178,978	1,672,390	3,851,368
Depreciation	<u>385,821</u>	<u>247,481</u>	<u>633,302</u>
Total Operating Expenses	<u>2,564,799</u>	<u>1,919,871</u>	<u>4,484,670</u>
Operating Income	183,343	193,923	377,266
Nonoperating Revenues (Expenses):			
Interest expense	<u>(277,711)</u>	<u>(161,560)</u>	<u>(439,271)</u>
Total Nonoperating (Expenses)	<u>(277,711)</u>	<u>(161,560)</u>	<u>(439,271)</u>
Income (Loss) Before Transfers and Capital Contributions	(94,368)	32,363	(62,005)
Transfers and Capital Contributions:			
Capital contributions	19,014	70,537	89,551
Transfers in	<u>175,759</u>	<u>-</u>	<u>175,759</u>
Change in Net Position	100,405	102,900	203,305
Net Position at Beginning of Year	<u>4,747,875</u>	<u>5,559,172</u>	<u>10,307,047</u>
Net Position at End of Year	<u>\$ 4,848,280</u>	<u>\$ 5,662,072</u>	<u>\$ 10,510,352</u>

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

TOWN OF EXETER, NEW HAMPSHIRE
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 2,734,323	\$ 2,223,801	\$ 4,958,124
Payments to vendors and employees	<u>(2,061,022)</u>	<u>(1,756,872)</u>	<u>(3,817,894)</u>
Net Cash Provided By Operating Activities	673,301	466,929	1,140,230
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfer in	<u>175,759</u>	<u>-</u>	<u>175,759</u>
Net Cash Provided By Noncapital Financing Activities	175,759	-	175,759
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Proceeds from issuance of bonds	5,040,865	-	5,040,865
Proceeds from issuance of leases	60,672	60,672	121,344
Proceeds from issuance of state revolving fund	1,226,992	-	1,226,992
Proceeds from issuance of bond anticipation note	3,300,000	-	3,300,000
Acquisition and construction of capital assets	(971,487)	(2,478,528)	(3,450,015)
Principal payments on bonds	(724,516)	(480,905)	(1,205,421)
Principal payments on notes	(5,040,865)	-	(5,040,865)
Principal payments on leases	(15,728)	(89,528)	(105,256)
Principal payments on bond anticipation note	(3,300,000)	-	(3,300,000)
Interest expense	(471,993)	(215,644)	(687,637)
Capital contribution	<u>19,014</u>	<u>70,537</u>	<u>89,551</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(877,046)</u>	<u>(3,133,396)</u>	<u>(4,010,442)</u>
Net Change in Cash and Short-Term Investments	(27,986)	(2,666,467)	(2,694,453)
Cash and Short-Term Investments, Beginning of Year	<u>948,867</u>	<u>4,733,217</u>	<u>5,682,084</u>
Cash and Short-Term Investments, End of Year	<u>\$ 920,881</u>	<u>\$ 2,066,750</u>	<u>\$ 2,987,631</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>			
Operating income	\$ 183,343	\$ 193,923	\$ 377,266
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	385,821	247,481	633,302
Changes in assets and liabilities:			
User fees	(13,819)	110,007	96,188
Warrants and retainage payable	64,219	(128,451)	(64,232)
Other post employment benefits	7,926	6,519	14,445
Net pension liability	47,486	37,989	85,475
Other liabilities	<u>(1,675)</u>	<u>(539)</u>	<u>(2,214)</u>
Net Cash Provided By Operating Activities	<u>\$ 673,301</u>	<u>\$ 466,929</u>	<u>\$ 1,140,230</u>

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

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

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and short-term investments	\$ <u>17,399</u>	\$ <u>2,871,636</u>
Total Assets	17,399	2,871,636
 LIABILITIES		
Due to other governments	-	2,206,752
Deposits held in custody	<u>-</u>	<u>664,884</u>
Total Liabilities	<u>-</u>	<u>2,871,636</u>
 NET POSITION		
Net position restricted for other purposes	\$ <u><u>17,399</u></u>	\$ <u><u>-</u></u>

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

TOWN OF EXETER, NEW HAMPSHIRE
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Private Purpose Trust Funds</u>
Additions:	
Interest	\$ <u>172</u>
Total additions	<u>172</u>
Net increase	172
 Net position:	
Beginning of year	<u>17,227</u>
End of year	\$ <u><u>17,399</u></u>

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

TOWN OF EXETER, NEW HAMPSHIRE

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the Town and applicable component units for which the Town is considered to be financially accountable. In 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. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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, proprietary funds, and fiduciary funds even though the latter are excluded for the government-wide financial statements. Major individual governmental funds

and major individual enterprise 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 proprietary fund and 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 government 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 Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *capital project fund* accounts for the activity pertaining to various infrastructure construction/renovation projects.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

- The *water fund* accounts for the operating activities and capital projects of the Town's water services.
- The *sewer fund* accounts for the operating activities and capital projects of the Town's sewer services.

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The Town reports the following fiduciary funds:

- The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit 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. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at fair value.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Building improvements	20
Infrastructure	25
Vehicles	5-15
Office equipment	5
Computer equipment	5

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, proprietary, and fiduciary fund 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, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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/deferred outflows and current liabilities/deferred inflows. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and, therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

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

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, net of related debt, consist 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. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Town's budget is originally prepared by the Town Manager under the supervision of the Board of Selectmen. It is then reviewed by the Budget Recommendations Committee. The Board of Selectmen then finalizes the operating budget, which is subject to deliberative session under RSA 40:13.

The final version of the budget is then voted on by the general population at the ballot the second Tuesday in March of each year. Should the operating budget of the Town fail to pass, the Town operates under a default budget as described in RSA 40:13.

The approved budget is subsequently reported to the State of New Hampshire on the Report of Appropriations Actually Voted form in order to establish the current property tax rate.

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

B. Budgetary Basis

The general fund final appropriation appearing on the “Budget and Actual” page of the fund financial statements represents the final amended budget after all reserve fund transfers and 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>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 17,434,433	\$ 17,686,971
Other financing sources/uses (GAAP Basis)	<u>998,312</u>	<u>524,135</u>
Subtotal (GAAP Basis)	18,432,745	18,211,106
Remove effect of combining capital reserves and general fund	57,520	(28,017)
Adjust tax revenue to budgetary basis	(80,386)	-
To reverse nonbudgeted capital lease activity	(573,708)	(573,708)
Other	<u>-</u>	<u>(56,371)</u>
Budgetary Basis	<u>\$ 17,836,171</u>	<u>\$ 17,553,010</u>

D. Deficit Fund Equity

The following funds had deficits as of December 31, 2016:

Capital Project Fund:

Great Bridge	\$ (173,774)	(B)
Water treatment design	(63,566)	(B)
Belmont Front Street	(24,438)	(B)
Stewart Park seawall	(105,794)	(B)
Industrial Drive culvert	(2,109)	(B)
String Bridge	<u>(279,751)</u>	(A)
Subtotal	<u>(649,432)</u>	

Nonmajor Funds:

Transportation Fund	(47,764)	(A)
CDBG grant	(451)	(A)
Liquor enforcement	(2,076)	(A)
State Highway Safety grant	<u>(309)</u>	(A)
Subtotal	<u>(50,600)</u>	
Total	<u>\$ (700,032)</u>	

- (A) The deficits in these funds will be eliminated through future departmental revenues and bond proceeds.
- (B) The Town will develop a plan to address these deficits.

3. Cash and Short-Term Investments

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

As of December 31, 2016, \$72,168 of the Town's bank balance of \$26,097,701 was exposed to custodial credit risk as uninsured or uncollateralized. The uncollateralized amount, \$72,168, represents the cash portion of the Edward Jones investment portfolio, held by the Library Trustees.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. 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>Exempt From Disclosure</u>	<u>Rating as of Year-end</u>
Corporate bonds	\$ 16,107	\$ -	A3
Mutual funds	186,195	186,195	N/A
Equity investments	<u>165,083</u>	<u>165,083</u>	N/A
Total investments	<u>\$ 367,385</u>	<u>\$ 351,278</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 held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are:

<u>Investment Issuer</u>	<u>Amount</u>
Charitable Large Capitalization	\$ 45,265
iShares S&P 500 Index (ETF)	34,196
John Hancock III Disc Value	30,239
Harbor International	<u>19,871</u>
Total	<u>\$ 129,571</u>

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 not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. 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>< 1</u>	<u>6-10</u>
Corporate bonds	\$ 16,107	\$ -	\$ 16,107
Total	\$ 16,107	\$ -	\$ 16,107

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>		
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:			
Debt securities			
Corporate bonds	\$ 16,107	\$ 16,107	\$ -
Equity securities	165,083	-	-
Mutual funds	186,195	186,195	-
Total	\$ 367,385	\$ 202,302	\$ -

5. Property Taxes

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 March 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 liened 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:

Property Taxes		
2016		\$ 1,086,315
Tax liens		
2015	252,104	
2014	152,984	
2013 and Prior	<u>89,865</u>	
Subtotal Tax Liens		494,953
Land Use Change Tax		<u>42,500</u>
Total		<u>\$ 1,623,768</u>

6. 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>	<u>Business-Type</u>
Property taxes	\$ 163,468	\$ -
Utilities	\$ -	\$ 43,637

7. Intergovernmental Receivables

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

8. Interfund 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 following is an analysis of major interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 424,604	\$ 524,135
Capital Project Fund	150,000	268,000
Nonmajor Funds:		
Library	198,376	-
EMS	-	156,604
Enterprise Funds:		
Water	<u>175,759</u>	<u>-</u>
Total	<u>\$ 948,739</u>	<u>\$ 948,739</u>

9. Capital Assets

Capital asset activity for the year ended December 31, 2016 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,998	\$ -	\$ -	\$ 3,998
Machinery, equipment, and furnishings	7,373	595	(398)	7,570
Infrastructure	<u>7,109</u>	<u>1,273</u>	<u>-</u>	<u>8,382</u>
Total capital assets, being depreciated	18,480	1,868	(398)	19,950
Less accumulated depreciation for:				
Buildings and improvements	(3,455)	(59)	-	(3,514)
Machinery, equipment, and furnishings	(4,357)	(490)	386	(4,461)
Infrastructure	<u>(4,756)</u>	<u>(75)</u>	<u>-</u>	<u>(4,831)</u>
Total accumulated depreciation	<u>(12,568)</u>	<u>(624)</u>	<u>386</u>	<u>(12,806)</u>
Total capital assets, being depreciated, net	5,912	1,244	(12)	7,144
Capital assets, not being depreciated:				
Land	9,925	13	-	9,938
Works of art	647	-	-	647
Construction in progress	<u>1,438</u>	<u>2,086</u>	<u>(690)</u>	<u>2,834</u>
Total capital assets, not being depreciated	<u>12,010</u>	<u>2,099</u>	<u>(690)</u>	<u>13,419</u>
Governmental activities capital assets, net	<u>\$ 17,922</u>	<u>\$ 3,343</u>	<u>\$ (702)</u>	<u>\$ 20,563</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 178	\$ -	\$ -	\$ 178
Machinery, equipment, and furnishings	2,188	11	(16)	2,183
Infrastructure	<u>38,126</u>	<u>3,088</u>	<u>-</u>	<u>41,214</u>
Total capital assets, being depreciated	40,492	3,099	(16)	43,575
Less accumulated depreciation for:				
Buildings and improvements	(156)	(4)	-	(160)
Machinery, equipment, and furnishings	(756)	(216)	16	(956)
Infrastructure	<u>(22,751)</u>	<u>(413)</u>	<u>-</u>	<u>(23,164)</u>
Total accumulated depreciation	<u>(23,663)</u>	<u>(633)</u>	<u>16</u>	<u>(24,280)</u>
Total capital assets, being depreciated, net	16,829	2,466	-	19,295
Capital assets, not being depreciated:				
Land	197	-	-	197
Construction in progress	<u>7,828</u>	<u>1,110</u>	<u>(760)</u>	<u>8,178</u>
Total capital assets, not being depreciated	<u>8,025</u>	<u>1,110</u>	<u>(760)</u>	<u>8,375</u>
Business-type activities capital assets, net	<u>\$ 24,854</u>	<u>\$ 3,576</u>	<u>\$ (760)</u>	<u>\$ 27,670</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 34
Public safety	308
Public works	250
Culture and recreation	28
Conservation	<u>4</u>
Total depreciation expense - governmental activities	<u>\$ 624</u>
Business-Type Activities:	
Water	\$ 386
Sewer	<u>247</u>
Total depreciation expense - business-type activities	<u>\$ 633</u>

10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB State-

ment No. 68, *Accounting and Financial Reporting for Pensions*, are more fully discussed in Note 22.

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent 2016 expenditures paid after December 31, 2016.

12. Due to Other Governments

The school district assessments for the period July 1, 2016 through June 30, 2017 were \$14,102,827 for the Exeter School District and \$16,469,377 for the Exeter Regional Cooperative. The School District assessments are paid in monthly installments. As of December 31, 2016, \$7,857,540 and \$8,189,036 was paid, respectively, leaving a total balance of \$14,525,628 to be paid through June 30, 2017.

13. Notes Payable

The Town has the following notes outstanding at December 31, 2016:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 12/31/16</u>
Bond anticipation note - Waste Water Treatment Plant	1.39%	7/22/2016	7/21/2017	\$ <u>3,300,000</u>
Total				\$ <u><u>3,300,000</u></u>

The following summarizes activity in notes payable during fiscal year 2016:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
State revolving fund	\$ 4,843,260	\$ 197,606	\$ (5,040,866)	\$ -
Bond anticipation note - Waste Water Treatment Plant	<u>3,300,000</u>	<u>3,300,000</u>	<u>(3,300,000)</u>	<u>3,300,000</u>
Total	<u><u>\$ 8,143,260</u></u>	<u><u>\$ 3,497,606</u></u>	<u><u>\$ (8,340,866)</u></u>	<u><u>\$ 3,300,000</u></u>

14. Capital Lease Obligations

The Town is the lessee of certain equipment under capital leases expiring in various years through 2021. Future minimum lease payments under capital leases consisted of the following as of December 31, 2016:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2017	\$ 485,650
2018	412,231
2019	270,170
2020	160,814
2021	<u>110,488</u>
Total minimum lease payments	1,439,353
Less amounts representing interest	<u>(72,400)</u>
Present Value of Minimum Lease Payments	<u>\$ 1,366,953</u>

15. 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 governmental and business-type 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>
Great Dam	08/15/21	3.55%	\$ 173,400
Norris Brook Culverts	08/16/19	2.0 - 4.0%	170,000
Jady Hill Utilities	08/16/19	2.0 - 4.0%	75,000
Removal of Great Dam	08/15/15	5.10%	1,245,000
Linden St. Culvert	08/15/25	2.54%	619,700
Design/Construction of sidewalks	08/15/25	2.54%	<u>502,700</u>
Total Governmental Activities:			<u>\$ 2,785,800</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 12/31/16</u>
Sewer Lines	08/15/21	3.55%	\$ 505,750
Epping Road	09/01/28	3.97%	1,370,000
State Revolving Loan	08/15/29	1.35%	2,630,386
Water Lines	08/15/21	3.55%	765,850
Wastewater Facilities	08/16/19	2.0 - 4.0%	150,000
Jady Hill Phase II	07/14/32	2.0 - 4.0%	2,055,000
Portsmouth Ave Sewer Lines	08/15/23	2.54%	570,714
Portsmouth Ave Water Lines	08/15/23	2.54%	109,287
Sewer Lines	08/15/24	5.10%	140,000
Water Mains	08/15/24	5.10%	975,000
Water Street State Revolving Loan	06/01/18	1.06%	136,552
SRF Loan - Water Meter Upgrade	08/15/25	0.97%	317,220
Water Treatment Plan State Revolving Loan	06/01/18	0.97%	83,132
Groundwater Treatment Facility	01/01/36	1.96%	5,040,886
Total Business-Type Activities:			<u>\$ 14,849,777</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	\$ 409,800	\$ 113,832	\$ 523,632
2018	397,800	97,598	495,398
2019	394,800	79,853	474,653
2020	314,800	63,579	378,379
2021	314,200	49,505	363,705
2022 - 2025	954,400	81,896	1,036,296
Total	<u>\$ 2,785,800</u>	<u>\$ 486,263</u>	<u>\$ 3,272,063</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,323,287	\$ 537,713	\$ 1,861,000
2018	1,405,321	426,259	1,831,580
2019	1,307,342	378,621	1,685,963
2020	1,150,803	337,413	1,488,216
2021	1,152,550	295,917	1,448,467
2022 - 2026	4,132,233	951,383	5,083,616
2027 - 2031	2,782,669	361,880	3,144,549
2032 - 2036	1,595,572	91,963	1,687,535
Total	<u>\$ 14,849,777</u>	<u>\$ 3,381,149</u>	<u>\$ 18,230,926</u>

C. Changes in General Long-Term Liabilities

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

	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	\$ 3,254	\$ -	\$ (468)	\$ 2,786	\$ (410)	\$ 2,376
OPEB	999	86	-	1,085	-	1,085
Net pension liability	13,786	5,258	-	19,044	-	19,044
Other:						
Capital leases	909	574	(353)	1,130	(353)	777
Compensated absences	504	22	-	526	(26)	500
Subtotal	1,413	596	(353)	1,656	(379)	1,277
Totals	\$ 19,452	\$ 5,940	\$ (821)	\$ 24,571	\$ (789)	\$ 23,782
<u>Business-Type Activities</u>						
Bonds payable	\$ 11,014	\$ 5,041	\$ (1,205)	\$ 14,850	\$ (1,323)	\$ 13,527
OPEB	167	14	-	181	-	181
Net pension liability	1,363	520	-	1,883	-	1,883
Other:						
Capital leases	221	121	(105)	237	(103)	134
Compensated absences	23	-	-	23	(1)	22
Subtotal	244	121	(105)	260	(104)	156
Totals	\$ 12,788	\$ 5,696	\$ (1,310)	\$ 17,174	\$ (1,427)	\$ 15,747

Authorized but Unissued

During fiscal year 2016, the Town signed a loan agreement with the State of New Hampshire Water Pollution Control Revolving Fund Program in order to finance the Wastewater Treatment Facility and Main Pump Station Upgrade project for \$53,580,000.

16. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The Town reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pensions will be recognized in pension expense in future years and are more fully described in Note 22. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

17. 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.

18. 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 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 advance to capital project fund 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 capital projects, 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 capital reserve funds set aside by Town Meeting vote for future capital acquisitions and improvements.

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	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Advance to other funds	\$ 649,432	\$ -	\$ -	\$ 649,432
Nonexpendable permanent funds	-	-	53,454	53,454
Total Nonspendable	649,432	-	53,454	702,886
Restricted				
Great Dam removal	-	197,924	-	197,924
Debt service ¹	-	379,960	-	379,960
Other bonded projects	-	358,572	-	358,572
Special revenue funds:				
Library	-	-	118,608	118,608
EMS	-	-	252,232	252,232
CATV	-	-	267,356	267,356
Police detail	-	-	63,152	63,152
Recreation	-	-	214,491	214,491
Other special revenue funds	-	-	173,935	173,935
Expendable permanent funds:				
Swasey parkway	-	-	349,620	349,620
Library	-	-	118,556	118,556
Other	-	-	90	90
Total Restricted	-	936,456	1,558,040	2,494,496
Committed				
Capital reserve funds:				
Transportation fund	102,314	-	-	102,314
Other capital reserve funds	35,480	-	-	35,480
Total Committed	137,794	-	-	137,794
Unassigned				
	2,208,915	(649,432)	(50,600)	1,508,883
Total Unassigned	2,208,915	(649,432)	(50,600)	1,508,883
Total Fund Balance	\$ 2,996,141	\$ 287,024	\$ 1,560,894	\$ 4,844,059

¹ This amount represents excess proceeds to be used towards the Great Dam debt service payment.

19. 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	\$ 2,208,915
Unavailable revenue	1,295,358
Accrued payroll	<u>212,008</u>
Tax Rate Setting Balance	<u>\$ 3,716,281</u>

20. 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.

Abatements - There are several cases pending before the New Hampshire Board of Tax and Land Appeals in regard to alleged discrepancies in property assessments. According to the Town’s counsel, the probable outcome of these cases at the present time is indeterminable, although the Town expects such amounts, if any, to be immaterial.

21. Net OPEB Obligation

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 in Note 22, 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, 2014, the actuarial valuation date, approximately 36 retirees and 128 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse, and life insurance 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 are responsible for contributing the full portion of the cost of the health plan, as determined by the Town.

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, 2014.

Annual Required Contribution (ARC)	\$	205,060
Interest on net OPEB obligation		46,612
Adjustment to ARC		<u>(60,745)</u>
Annual OPEB cost		190,927
Contributions made		<u>89,892</u>
Increase in net OPEB obligation		101,035
Net OPEB obligation - beginning of year		<u>1,165,286</u>
Net OPEB obligation - end of year	\$	<u><u>1,266,321</u></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>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 190,927	47%	\$ 1,266,321
2015	\$ 183,567	32%	\$ 1,165,286
2014	\$ 175,609	23%	\$ 1,040,469
2013	\$ 227,306	26%	\$ 904,645
2012	\$ 216,410	19%	\$ 737,318
2011	\$ 205,714	25%	\$ 561,046

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2014, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 1,755,140
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,755,140</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.0%</u>
Covered payroll (active plan members)	<u>\$ 6,109,841</u>
UAAL as a percentage of covered payroll	<u>28.7%</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 funding progress, presented as required supplementary information following the Notes to 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, 2014 actuarial valuation, the entry age cost method was used. The actuarial value of assets was not determined, as the Town has not advanced funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 9%, which decreases to a 5% long-term rate for all healthcare benefits after ten 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.

22. 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 1/60 or 1.667% of average final compensation (AFC), multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of AFC multiplied by years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have 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, for which the contribution rates are 7% for employees and teachers, 11.55% for police and 11.80% for fire. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and range from 11.17% to 29.16% of covered compensation. The Town's contributions to NHRS for the year ended December 31, 2016 was \$1,408,838, 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 \$20,926,994 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, 2016, the Town's proportion was 0.39354241%.

For the year ended June 30, 2016, the Town recognized pension expense of \$2,329,468. 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	\$ 58,155	\$ 264,256
Changes of assumptions	2,575,448	-
Net difference between projected and actual earnings on pension plan investments	1,309,300	-
Changes in proportion and differences between contributions and proportionate share of contributions	156,637	-
Contributions subsequent to the measurement date	<u>796,716</u>	<u>-</u>
Total	<u>\$ 4,896,256</u>	<u>\$ 264,256</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as an increase of pension expense in the year ended December 31, 2017.

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

Year ended June 30:	
2017	\$ 743,048
2018	743,048
2019	1,227,173
2020	1,066,702
2021	<u>55,313</u>
Total	<u>\$ 3,835,284</u>

F. Actuarial Assumptions

The total pension liability was determined using the actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 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:

Asset Class	Target Allocation Percentage	Weighted Average Average Long-Term Expected Real Rate of Return
Large Cap Equities	22.50 %	4.25%
Small/Mid Cap Equities	7.50	4.50%
Total domestic equities	30.00	
Int'l Equities (unhedged)	13.00	4.75%
Emerging Int'l Equities	7.00	6.25%
Total international equities	20.00	
Core Bonds	5.00	0.64%
Short Duration	2.00	-0.25%
Global Multi-Sector Fixed Income	11.00	1.71%
Absolute Return Fixed Income	7.00	1.08%
Total fixed income	25.00	
Private equity	5.00	6.25%
Private debt	5.00	4.75%
Opportunistic	5.00	3.68%
Total alternative investments	15.00	
Real Estate	10.00	3.25%
Total	100.00 %	

G. Discount Rate

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

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

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

June 30, 2016	\$ 26,889,760	\$ 20,926,994	\$ 15,981,822
---------------	---------------	---------------	---------------

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.

23. 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 government 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.

24. Subsequent Events

Debt

Subsequent to December 31, 2016, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
2017 Series B Bond	\$ 4,183,000	2.189%	06/06/17	08/15/32

25. Beginning Fund Balance Reclassified

The beginning (January 1, 2016) fund balance of the Town has been reclassified as follows:

	Fund Equity 1/1/16 (as previously reported)	Reclassification	Fund Equity 1/1/16 (as reclassified)
General fund	\$ 2,774,502	\$ -	\$ 2,774,502
Capital project fund	-	1,567,069	1,567,069
Nonmajor funds	<u>2,676,984</u>	<u>(1,567,069)</u>	<u>1,109,915</u>
Total	<u>\$ 5,451,486</u>	<u>\$ -</u>	<u>\$ 5,451,486</u>

26. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, replacing requirements of Statements No. 45 and 57, effective for the Town beginning with its year ending December 31, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB.

**TOWN OF EXETER, 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]
1/1/2014	\$ -	\$ 1,755,140	\$ 1,755,140	0.0%	\$ 6,109,841	28.7%
1/1/2011	\$ -	\$ 1,870,706	\$ 1,870,706	0.0%	\$ 5,671,333	33.0%
1/1/2008	\$ -	\$ 1,407,964	\$ 1,407,964	0.0%	\$ 5,266,396	26.7%

See Independent Auditors' Report.

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

New Hampshire Retirement System					
Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Percentage Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
December 31, 2016	0.39354241%	\$ 20,926,994	\$ 8,155,765	256.591%	58.30%
December 31, 2015	0.38240135%	\$ 15,148,933	\$ 7,948,396	190.591%	65.47%

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

See Independent Auditors' Report.

TOWN OF EXETER, NEW HAMPSHIRE

SCHEDULE OF PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016

(Unaudited)

New Hampshire Retirement System					
Fiscal Year	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2016	\$ 1,408,838	\$ 1,408,838	\$ -	\$ 8,155,765	17.27%
December 31, 2015	\$ 1,486,987	\$ 1,486,987	\$ -	\$ 7,948,396	18.71%

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

See Independent Auditors' Report.