

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**

**Financial Statements**

**With Schedule of Expenditures of Federal Awards**

**June 30, 2018**

**and**

**Independent Auditor's Report**

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit  
of Financial Statements Performed in Accordance  
With *Government Auditing Standards***

**Report on Compliance for Each Major Federal Program  
and Report on Internal Control Over Compliance  
Required by the Uniform Guidance**

**Schedule of Findings and Questioned Costs**

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**FINANCIAL STATEMENTS**  
**June 30, 2018**

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**FINANCIAL STATEMENTS**  
**June 30, 2018**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor, City Council and Manager  
City of Somersworth, 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 City of Somersworth, New Hampshire, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somersworth, New Hampshire, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the City's proportionate share of the net OPEB liability, schedule of City OPEB contributions, schedule of changes in the City's total OPEB liability and related ratios, schedule of changes in the City's proportionate share of the net pension liability, and schedule of City pension contributions on pages i-ix and 44-51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Somersworth, New Hampshire's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2019 on our consideration of the City of Somersworth, New Hampshire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 City of Somersworth, New Hampshire's internal control over financial reporting and compliance.

*Vachon Riley & Company PC*

Manchester, New Hampshire  
February 7, 2019

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

As management of the City of Somersworth, we offer readers this narrative overview and analysis of the financial activities of the City of Somersworth for the fiscal year ended June 30, 2018. We encourage readers to consider the information here in conjunction with additional information that we have furnished in our letter of transmittal.

### **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, deferred outflows of resources, liabilities, and deferred inflows of resources with the balance 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 government'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, highways and streets, health and welfare, culture and recreation, and education. The business-type activities include water, sewer, and solid waste 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, sewer, and solid waste 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, sewer, and solid waste operations, only the water and sewer are 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 City'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 the *Governmental Accounting Standards Board*.



## **B. FINANCIAL HIGHLIGHTS**

As of the close of the current fiscal year, the total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8,907,678, presented as "net position" shown on the Statement of Net Position for the Total Primary Government. The City's Net Position increased by \$1,951,370 compared to the prior year.

- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$6,568,224, a change of \$165,860 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,838,947, a change of (\$480,104) in comparison with the prior year. Due to City Council action, \$800,000 of the General Fund fund balance has been designated for future years' expenditures.
- Total bonds payable at the close of the current fiscal year was \$26,150,233, a change of (\$3,127,468) 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. All amounts are presented in thousands.

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$22,133	\$21,731	\$ 6,820	\$ 6,556	\$28,953	\$28,287
Capital assets	48,965	49,547	19,798	20,229	68,763	69,776
Total assets	71,098	71,278	26,618	26,785	97,716	98,063
Total deferred outflow of resources	6,256	8,987	383	261	6,639	9,248
Long-term liabilities outstanding	61,695	61,772	10,176	11,148	71,871	72,920
Other liabilities	3,465	3,750	1,258	1,552	4,723	5,302
Total liabilities	65,160	65,522	11,434	12,700	76,594	78,222
Total deferred inflow of resources	18,643	11,385	210	24	18,853	11,409
Net Position:						
Invested in capital assets, net	31,680	30,162	10,036	9,392	41,716	39,554
Restricted	1,084	834	-	-	1,084	834
Unrestricted (Deficit)	(39,213)	(27,638)	5,321	4,930	(33,892)	(22,708)
Total Net Position	\$ (6,449)	\$ 3,358	\$15,357	\$14,322	\$ 8,908	\$17,680

# CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 1,048	\$ 1,125	\$ 5,557	\$ 5,432	\$ 6,605	\$ 6,557
Operating grants and contributions	11,287	11,956	-	-	11,287	11,956
Capital grants and contributions	692	1,948	38	43	730	1,991
					-	-
General revenues:						
Taxes	25,701	24,626	-	-	25,701	24,626
Licenses and permits	2,111	2,109	-	-	2,111	2,109
Intergovernmental	603	605	-	-	603	605
Interest	140	74	-	-	140	74
Miscellaneous	537	400	45	24	582	424
Total revenues	42,119	42,843	5,640	5,499	47,759	48,342
Expenses:						
General government	1,928	1,801	-	-	1,928	1,801
Public safety	6,484	6,831	-	-	6,484	6,831
Highways and streets	2,833	2,930	-	-	2,833	2,930
Health and welfare	249	276	-	-	249	276
Culture and recreation	640	874	-	-	640	874
School department	28,642	28,539	-	-	28,642	28,539
Interest	570	567	-	-	570	567
Other	-	-	-	-	-	-
Water operations	-	-	1,929	1,992	1,929	1,992
Sewer operations	-	-	2,124	2,180	2,124	2,180
Solid waste operations	-	-	408	396	408	396
Total expenses	41,346	41,818	4,461	4,568	45,807	46,386
Change in net position before transfers	773	1,025	1,179	931	1,952	1,956
Transfers in (out)	-	-	-	-	-	-
Change in net position	773	1,025	1,179	931	1,952	1,956
Net position, beginning as restated	(7,222)	(8,247)	14,178	13,247	6,956	5,000
Net position, end of year	\$ (6,449)	\$ (7,222)	\$ 15,357	\$ 14,178	\$ 8,908	\$ 6,956

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 \$8,907,678, a change of \$1,951,370 from the prior year as restated.

The largest portion of the City's net position, \$41,715,621 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), 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 accumulated depreciation, 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, \$1,083,574 represents resources that are subject to external restrictions on how they may be used. The remaining balance of (\$33,891,517) represents a deficit in unrestricted net position. This deficit is due to the implementation of GASB 68 whereby the City must report our proportionate share of the net pension liability for the New Hampshire Retirement System.

The City of Somersworth implemented GASB Statement No. 75, *Postemployment Benefits Other Than Pensions*. As a result of the implementation, the City of Somersworth restated the fiscal 2018 beginning net position of the governmental activities and the business-type activities. Note 15 in the Notes to Basic Financial Statements contains additional information regarding the restatement.

	Governmental Activities	Business-Type Activities
Net position, June 30, 2017	\$ 3,357,700	\$ 14,321,734
Implementation of GASB 75, <i>Postemployment Benefits Other Than Pensions</i>	(10,579,454)	(143,672)
Net position, July 1, 2017	\$ (7,221,754)	\$ 14,178,062

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$772,713. Key elements of this change are as follows:

	Governmental Activities
General fund operating results, as disclosed in Exhibit D	\$ 168,725
Non-major funds operating results	(2,865)
Other GAAP accruals, see Exhibit D-1 in the financial statements	606,853
Total	\$ 772,713

**Business-Type Activities.** Business-type activities for the year resulted in a change in net position of \$1,178,657. Key elements of this change are as follows:

	Business-Type Activities
Water Fund	\$ 579,846
Sewer Fund	547,179
Solid Waste Fund	51,632
Total	<u>\$ 1,178,657</u>

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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$6,568,224, a change of \$165,860 in comparison with the prior year. Key elements of this change are as follows:

	Governmental Funds
General fund operating results, as disclosed below	\$ 168,725
Non-major funds operating results	(2,865)
Total	<u>\$ 165,860</u>

The general fund is the main operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,838,947 while total fund balance was \$4,961,534. 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 fund expenditures.

The fund balance of the general fund increased by \$168,725 during the current fiscal year. Key factors in this change are as follows:

	General Fund
Revenues:	
Actual revenues in excess of budgeted amounts	\$ 484,754
Budgetary transfers in	(108,000)
Property tax collections exceeding (less than) net tax levy	(143,186)
Capital Lease	350,151
Expenditures:	
Actual expenditures less than appropriated amounts	812,433
Budgetary transfers out	100,598
Prior year encumbrances under (over) current year	673,978
Capital Lease	(350,151)
Use of fund balance as a funding source	(1,613,716)
Non-budgetary:	
Capital Reserve Fund	(81,669)
Landfill Trust Fund	43,533
Total	<u>\$ 168,725</u>

For the purposes of the Governmental Accounting Standards Board statement 54, the activity of the capital reserve funds and the landfill trust fund are included with the General Fund. However, for budgetary purposes, the capital reserve funds and the landfill trust fund are not budgeted items.

**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 are \$5,320,967, a change of \$391,210 in comparison with 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**

The original budget adopted by the City Council increased by \$412,000. On June 4, 2018, the City Council adopted Ordinance 12-18 providing a supplemental appropriation in the amount of \$412,000 to cover shortfall in education funding.

	<u>FY2017-2018</u>	<u>FY2016-2017</u>
Original budget adopted by the City Council, Ordinance 15-17, April 3, 2017	\$ 41,149,475	\$ 40,614,260
Supplemental appropriation, Ordinance 12-18, June 4, 2018	412,000	2,017,646
Total Budget	<u>\$ 41,561,475</u>	<u>\$ 42,631,906</u>
Dollar Change	\$ (1,070,431)	
Percentage Change	-2.51%	

The overall budget decrease by (\$1,070,431) from Fiscal Year 2017 to Fiscal Year 2018; a 2.51% decrease.

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

##### **Capital assets.**

Total investment in capital assets for governmental and business-type activities at year-end amounted to \$68,762,862 (net of accumulated depreciation), a change of (\$1,012,807) from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

##### **Long-term debt.**

At the end of the current fiscal year, total bonded debt outstanding was \$26,150,233, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

#### **G. ECONOMIC FACTORS**

Fiscal year 2018 was a dynamic year for Somersworth. Revitalization and investment into the Hilltop City continued. Most notable is the growth of the "Medical Mile" on Route 108, enhanced by the construction of a new, (state of art) Veteran's Administration building, and an expansion of our residential opportunities. The City-initiated Plaza redevelopment project continues its progression and has been toured by some of the most prominent seacoast developers. The original Downtown historic block has thrived with the addition of two new restaurants, a new retail establishment, new function space, and several service-based businesses. Residential investment in the Historic District continues, and the City is continuing to update vital infrastructure with the design and construction of Complete Streets renovations and other improvements.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Somersworth'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:

Office of Finance Director  
City of Somersworth  
One Government Way  
Somersworth, New Hampshire 03878

EXHIBIT A  
CITY OF SOMERSWORTH, NEW HAMPSHIRE  
Statement of Net Position  
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 14,747,895		\$ 14,747,895
Investments	7,337,841		7,337,841
Taxes receivable, net	811,006		811,006
Accounts receivable, net	179,527	\$ 1,012,965	1,192,492
Remediation recovery receivable	72,963		72,963
Due from other governments	938,316	122,388	1,060,704
Internal balances	(4,703,614)	4,703,614	-
Prepaid expenses	29,117	9,688	38,805
Inventory		114,624	114,624
Total Current Assets	<u>19,413,051</u>	<u>5,963,279</u>	<u>25,376,330</u>
Noncurrent Assets:			
Remediation recovery receivable	2,720,021		2,720,021
Due from other governments		856,709	856,709
Capital assets:			
Non-depreciable capital assets	2,694,007	901,099	3,595,106
Depreciable capital assets, net	46,271,027	18,896,729	65,167,756
Total Noncurrent Assets	<u>51,685,055</u>	<u>20,654,537</u>	<u>72,339,592</u>
Total Assets	<u>71,098,106</u>	<u>26,617,816</u>	<u>97,715,922</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to OPEB	254,739	219,244	473,983
Deferred outflows related to pension	6,001,104	163,876	6,164,980
Total Deferred Outflows of Resources	<u>6,255,843</u>	<u>383,120</u>	<u>6,638,963</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	666,239	139,088	805,327
Accrued expenses	312,295	105,690	417,985
Retainage payable	84,419	41,593	126,012
Due to other governments	4,201		4,201
Unearned food service revenue	14,150		14,150
Current portion of bonds payable	1,907,491	971,536	2,879,027
Current portion of capital leases payable	328,812		328,812
Current portion of pollution remediation obligation	147,400		147,400
Total Current Liabilities	<u>3,465,007</u>	<u>1,257,907</u>	<u>4,722,914</u>
Noncurrent Liabilities:			
Bonds payable	14,508,088	8,763,118	23,271,206
Capital leases payable	456,355	27,422	483,777
Compensated absences payable	1,733,695	124,615	1,858,310
OPEB liability	9,626,591	453,231	10,079,822
Net pension liability	29,874,780	808,347	30,683,127
Pollution remediation obligation	5,494,991		5,494,991
Total Noncurrent Liabilities	<u>61,694,500</u>	<u>10,176,733</u>	<u>71,871,233</u>
Total Liabilities	<u>65,159,507</u>	<u>11,434,640</u>	<u>76,594,147</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes collected in advance	11,233,609		11,233,609
Deferred inflows related to OPEB	5,883,320	155,310	6,038,630
Deferred inflows related to pension	1,526,554	54,267	1,580,821
Total Deferred Inflows of Resources	<u>18,643,483</u>	<u>209,577</u>	<u>18,853,060</u>
NET POSITION			
Net investment in capital assets	31,679,869	10,035,752	41,715,621
Restricted	1,083,574		1,083,574
Unrestricted (Deficit)	<u>(39,212,484)</u>	<u>5,320,967</u>	<u>(33,891,517)</u>
Total Net Position	<u>\$ (6,449,041)</u>	<u>\$ 15,356,719</u>	<u>\$ 8,907,678</u>

See accompanying notes to the basic financial statements



EXHIBIT B  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Statement of Activities**  
For the Year Ended June 30, 2018

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental Activities:							
General government	\$ 1,927,549	\$ 134,990	\$ 5,055		\$ (1,787,504)		\$ (1,787,504)
Public safety	6,483,937	43,316	212,999		(6,227,622)		(6,227,622)
Highways and streets	2,588,902		425,386	\$ 17,018	(2,146,498)		(2,146,498)
Sanitation	244,487		109,700		(134,787)		(134,787)
Health and welfare	249,147				(249,147)		(249,147)
Culture and recreation	506,661	91,808			(414,853)		(414,853)
Conservation	433				(433)		(433)
Economic development	132,580		119,771		(12,809)		(12,809)
Education	27,869,748	526,668	9,909,032		(17,434,048)		(17,434,048)
Food service	772,069	251,596	504,788		(15,685)		(15,685)
Debt service	570,077			674,243	104,166		104,166
Total governmental activities	<u>41,345,590</u>	<u>1,048,378</u>	<u>11,286,731</u>	<u>691,261</u>	<u>(28,319,220)</u>	<u>\$ -</u>	<u>(28,319,220)</u>
Business-type activities:							
Water	1,928,683	2,471,775				543,092	543,092
Sewer	2,124,355	2,625,367		38,420		539,432	539,432
Solid waste	407,891	459,523				51,632	51,632
Total business-type activities	<u>4,460,929</u>	<u>5,556,665</u>	<u>-</u>	<u>38,420</u>	<u>-</u>	<u>1,134,156</u>	<u>1,134,156</u>
Total primary government	<u>\$ 45,806,519</u>	<u>\$ 6,605,043</u>	<u>\$ 11,286,731</u>	<u>\$ 729,681</u>	<u>(28,319,220)</u>	<u>1,134,156</u>	<u>(27,185,064)</u>
General revenues:							
Property and other taxes					25,700,860		25,700,860
Licenses and permits					2,110,986		2,110,986
Grants and contributions:							
Rooms and meals tax distribution					602,278		602,278
State railroad tax					874		874
Interest and investment earnings					140,136		140,136
Miscellaneous					536,799	44,501	581,300
Total general revenues					<u>29,091,933</u>	<u>44,501</u>	<u>29,136,434</u>
Change in net position					772,713	1,178,657	1,951,370
Net position - beginning, as restated					<u>(7,221,754)</u>	<u>14,178,062</u>	<u>6,956,308</u>
Net position - ending					<u>\$ (6,449,041)</u>	<u>\$ 15,356,719</u>	<u>\$ 8,907,678</u>

See accompanying notes to the basic financial statements

EXHIBIT C  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 14,583,322	\$ 164,573	\$ 14,747,895
Investments	6,800,717	537,124	7,337,841
Taxes receivable, net	811,006		811,006
Accounts receivable	147,566	31,961	179,527
Due from other governments		938,316	938,316
Due from other funds	700,524	886,536	1,587,060
Prepaid expenses	79,981		79,981
Total Assets	<u>23,123,116</u>	<u>2,558,510</u>	<u>25,681,626</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Total Deferred Outflows of Resources	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 23,123,116</u>	<u>\$ 2,558,510</u>	<u>\$ 25,681,626</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 303,573	\$ 188,267	\$ 491,840
Accrued expenses	130,196	499	130,695
Retainage payable	36,039	48,380	84,419
Due to other governments	4,201		4,201
Due to other funds	5,764,549	700,524	6,465,073
Unearned food service revenue		14,150	14,150
Total Liabilities	<u>6,238,558</u>	<u>951,820</u>	<u>7,190,378</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes collected in advance	11,233,609		11,233,609
Uncollected property taxes	689,415		689,415
Total Deferred Inflows of Resources	<u>11,923,024</u>	<u>-</u>	<u>11,923,024</u>
<b>FUND BALANCES</b>			
Nonspendable	79,981	179,676	259,657
Restricted	76,314	827,584	903,898
Committed	915,428	599,430	1,514,858
Assigned	50,864		50,864
Unassigned	3,838,947		3,838,947
Total Fund Balances	<u>4,961,534</u>	<u>1,606,690</u>	<u>6,568,224</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 23,123,116</u>	<u>\$ 2,558,510</u>	<u>\$ 25,681,626</u>

See accompanying notes to the basic financial statements

EXHIBIT C-1  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
June 30, 2018

Total Fund Balances - Governmental Funds (Exhibit C)	\$ 6,568,224
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	48,965,034
Prepaid expenses for debt service requirements reduce long-term liabilities on the accrual basis in the statement of net position, not the modified accrual basis	(50,864)
Other long-term assets are not available to pay current period expenditures, and therefore, are not reported in governmental funds	2,792,984
Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis	689,415
Deferred outflows of resources and deferred inflows of resources that do not require or provide the use of current financial resources are not reported within the funds.	
Deferred outflows of resources related to OPEB liability	254,739
Deferred outflows of resources related to net pension liability	6,001,104
Deferred inflows of resources related to OPEB liability	(5,883,320)
Deferred inflows of resources related to net pension liability	(1,526,554)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:	
Bonds payable	(16,415,579)
Capital leases payable	(785,167)
Accrued interest on long-term obligations	(181,600)
Compensated absences payable	(1,733,695)
OPEB liability	(9,626,591)
Net pension liability	(29,874,780)
Estimated pollution remediation obligation	<u>(5,642,391)</u>
Net Position of Governmental Activities (Exhibit A)	<u>\$ (6,449,041)</u>

*See accompanying notes to the basic financial statements*

EXHIBIT D  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
For the Year Ended June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 25,524,119	\$ 33,555	\$ 25,557,674
Licenses and permits	2,046,351	64,635	2,110,986
Intergovernmental	9,572,171	3,008,973	12,581,144
Charges for services	620,015	428,363	1,048,378
Interest and investment income	128,990	11,146	140,136
Miscellaneous	388,221	148,578	536,799
Total Revenues	<u>38,279,867</u>	<u>3,695,250</u>	<u>41,975,117</u>
Expenditures:			
Current operations:			
General government	1,733,161	41,779	1,774,940
Public safety	5,883,851	38,489	5,922,340
Highways and streets	2,414,621	21,273	2,435,894
Sanitation	209,224	109,700	318,924
Health and welfare	247,399		247,399
Culture and recreation	463,059	231	463,290
Conservation		433	433
Economic development	12,809	119,771	132,580
Education	24,032,746	2,091,802	26,124,548
Food service		772,069	772,069
Capital outlay	492,341	505,581	997,922
Debt service:			
Principal retirement	2,255,411		2,255,411
Interest and fiscal charges	713,658		713,658
Total Expenditures	<u>38,458,280</u>	<u>3,701,128</u>	<u>42,159,408</u>
Excess revenues (under) expenditures	<u>(178,413)</u>	<u>(5,878)</u>	<u>(184,291)</u>
Other financing sources (uses):			
Proceeds from capital lease	350,151		350,151
Transfers in		275,313	275,313
Transfers out	(3,013)	(272,300)	(275,313)
Total other financing sources (uses)	<u>347,138</u>	<u>3,013</u>	<u>350,151</u>
Net change in fund balances	168,725	(2,865)	165,860
Fund balances at beginning of year	<u>4,792,809</u>	<u>1,609,555</u>	<u>6,402,364</u>
Fund balances at end of year	<u>\$ 4,961,534</u>	<u>\$ 1,606,690</u>	<u>\$ 6,568,224</u>

*See accompanying notes to the basic financial statements*

## EXHIBIT D-1

**CITY OF SOMERSWORTH, 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 June 30, 2018

Net Change in Fund Balances - Governmental Funds (Exhibit D)	\$ 165,860
Amounts reported for governmental activities in the statement of activities are different because:	
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 as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	(581,170)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	143,186
Repayment of bond principal is an expenditure in the governmental funds when due, but the repayment reduces long-term liabilities in the statement of net position.	1,952,061
Repayment of principal on capital leases is an expenditure in the governmental funds when due, but the repayment reduces long-term liabilities in the statement of net position.	305,291
Proceeds from capital lease issuances are other financing sources in the funds, but the capital lease issuances increase long-term liabilities in the statement of net position.	(350,151)
Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are amortized in the statement of activities over the life of the related debt.	126,279
In the statement of activities, interest is accrued on outstanding bonds and capital leases, whereas in governmental funds, an interest expenditure is reported when due.	15,361
Some expenses reported in the statement of activities, such as compensated absences and the pollution remediation obligation, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	20,674
Governmental funds report OPEB and pension contributions as expenditures. However, in the statement of activities, OPEB and pension expense reflects the change in the OPEB liability and net pension liability and related deferred outflows and inflows of resources, and does not require the use of current financial resources. This is the amount by which OPEB and pension expense differed from OPEB and pension contributions in the current period.	
Net changes in OPEB	(474,414)
Net changes in pension	(550,264)
Change in Net Position of Governmental Activities (Exhibit B)	<u>\$ 772,713</u>

*See accompanying notes to the basic financial statements*

EXHIBIT E  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Statement of Net Position**  
**Proprietary Funds**  
June 30, 2018

	Business-type Activities			
	Water Fund	Sewer Fund	Nonmajor Fund	Totals
<b>ASSETS</b>				
Current Assets:				
Accounts receivable, net	\$ 478,630	\$ 497,620	\$ 36,715	\$ 1,012,965
Due from other governments		122,388		122,388
Due from other funds	2,206,736	2,374,253	122,625	4,703,614
Prepaid expenses	4,843	4,845		9,688
Inventory	107,679		6,945	114,624
Total Current Assets	<u>2,797,888</u>	<u>2,999,106</u>	<u>166,285</u>	<u>5,963,279</u>
Noncurrent Assets:				
Due from other governments		856,709		856,709
Capital assets:				
Non-depreciable capital assets	196,032	705,067		901,099
Depreciable capital assets, net	7,246,865	11,649,864		18,896,729
Total Noncurrent Assets	<u>7,442,897</u>	<u>13,211,640</u>	<u>-</u>	<u>20,654,537</u>
Total Assets	<u>10,240,785</u>	<u>16,210,746</u>	<u>166,285</u>	<u>26,617,816</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to OPEB	130,625	88,619		219,244
Deferred outflows related to pension	87,776	76,100		163,876
Total Deferred Outflows of Resources	<u>218,401</u>	<u>164,719</u>	<u>-</u>	<u>383,120</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	74,969	37,576	26,543	139,088
Accrued expenses	84,255	21,435		105,690
Retainage payable	14,663	26,930		41,593
Current portion of bonds payable	398,975	572,561		971,536
Total Current Liabilities	<u>572,862</u>	<u>658,502</u>	<u>26,543</u>	<u>1,257,907</u>
Noncurrent Liabilities:				
Bonds payable	4,500,830	4,262,288		8,763,118
Capital leases payable	13,711	13,711		27,422
Compensated absences payable	59,797	64,818		124,615
Other post-employment benefits obligation	297,545	155,686		453,231
Net pension liability	432,970	375,377		808,347
Total Noncurrent Liabilities	<u>5,304,853</u>	<u>4,871,880</u>	<u>-</u>	<u>10,176,733</u>
Total Liabilities	<u>5,877,715</u>	<u>5,530,382</u>	<u>26,543</u>	<u>11,434,640</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to OPEB	89,618	65,692		155,310
Deferred inflows related to pension	29,067	25,200		54,267
Total Deferred Inflows of Resources	<u>118,685</u>	<u>90,892</u>	<u>-</u>	<u>209,577</u>
<b>NET POSITION</b>				
Net investment in capital assets	2,529,381	7,506,371		10,035,752
Unrestricted	1,933,405	3,247,820	139,742	5,320,967
Total Net Position	<u>\$ 4,462,786</u>	<u>\$ 10,754,191</u>	<u>\$ 139,742</u>	<u>\$ 15,356,719</u>

See accompanying notes to the basic financial statements

EXHIBIT F  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
For the Year Ended June 30, 2018

	Business-type Activities			
	Water Fund	Sewer Fund	Nonmajor Fund	Totals
Operating revenues:				
Charges for services	\$ 2,471,775	\$ 2,625,367	\$ 459,523	\$ 5,556,665
Miscellaneous	36,754	7,747		44,501
Total operating revenues	<u>2,508,529</u>	<u>2,633,114</u>	<u>459,523</u>	<u>5,601,166</u>
Operating expenses:				
Personnel services	607,498	522,535		1,130,033
Contractual services	81,030	196,485	351,043	628,558
Repairs and maintenance	97,177	64,670		161,847
Administration	74,899	77,596	278	152,773
Materials and supplies	176,548	149,225	56,570	382,343
Utilities	157,400	210,151		367,551
Depreciation	546,514	703,505		1,250,019
Miscellaneous	56,875	57,000		113,875
Total operating expenses	<u>1,797,941</u>	<u>1,981,167</u>	<u>407,891</u>	<u>4,186,999</u>
Operating income	<u>710,588</u>	<u>651,947</u>	<u>51,632</u>	<u>1,414,167</u>
Non-operating (expenses):				
Interest expense	<u>(130,742)</u>	<u>(143,188)</u>		<u>(273,930)</u>
Total non-operating (expenses)	<u>(130,742)</u>	<u>(143,188)</u>	<u>-</u>	<u>(273,930)</u>
Income before capital contributions	579,846	508,759	51,632	1,140,237
Capital contributions		<u>38,420</u>		<u>38,420</u>
Change in net position	579,846	547,179	51,632	1,178,657
Net position - beginning, as restated	<u>3,882,940</u>	<u>10,207,012</u>	<u>88,110</u>	<u>14,178,062</u>
Net position - ending	<u>\$ 4,462,786</u>	<u>\$ 10,754,191</u>	<u>\$ 139,742</u>	<u>\$ 15,356,719</u>

See accompanying notes to the basic financial statements

EXHIBIT G  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Statement of Cash Flows**  
**Proprietary Funds**  
For the Year Ended June 30, 2018

	Business-type Activities			
	Water Fund	Sewer Fund	Nonmajor Fund	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 2,487,169	\$ 2,633,284	\$ 442,045	\$ 5,562,498
Cash paid to suppliers	(877,758)	(990,892)	(395,190)	(2,263,840)
Cash paid to employees	(355,079)	(304,747)		(659,826)
Net cash provided by operating activities	<u>1,254,332</u>	<u>1,337,645</u>	<u>46,855</u>	<u>2,638,832</u>
Cash flows from capital financing activities:				
Purchases of capital assets	(366,411)	(713,059)		(1,079,470)
Capital contributions		160,808		160,808
Principal paid on long-term debt	(393,975)	(576,840)		(970,815)
Principal paid on capital leases	(13,142)	(13,142)		(26,284)
Interest paid on long-term debt	(198,277)	(165,687)		(363,964)
Net cash (used) for capital financing activities	<u>(971,805)</u>	<u>(1,307,920)</u>	<u>-</u>	<u>(2,279,725)</u>
Net increase in cash and cash equivalents	282,527	29,725	46,855	359,107
Cash and cash equivalents at beginning of year	<u>1,924,209</u>	<u>2,344,528</u>	<u>75,770</u>	<u>4,344,507</u>
Cash and cash equivalents at end of year	<u>\$ 2,206,736</u>	<u>\$ 2,374,253</u>	<u>\$ 122,625</u>	<u>\$ 4,703,614</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 710,588	\$ 651,947	\$ 51,632	\$ 1,414,167
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	546,514	703,505		1,250,019
Change in deferred outflows related to OPEB	(126,708)	(85,223)		
Change in deferred outflows related to pension	50,731	46,050		96,781
Change in deferred inflows related to OPEB	89,618	65,692		
Change in deferred inflows related to pension	16,225	13,875		30,100
Changes in assets and liabilities:				
Accounts receivable, net	(21,360)	170	(17,478)	(38,668)
Prepaid expenses	(753)	(755)		(1,508)
Inventory	(2,521)		15,340	12,819
Accounts payable	7,571	(28,270)	(2,639)	(23,338)
Accrued expenses	555	446		1,001
Compensated absences payable	535	9,778		10,313
Other post-employment benefits obligation	57,395	32,204		89,599
Net pension liability	(74,058)	(71,774)		(145,832)
Net cash provided by operating activities	<u>\$ 1,254,332</u>	<u>\$ 1,337,645</u>	<u>\$ 46,855</u>	<u>\$ 2,695,453</u>
Non-cash investing, capital and financing activities:				
Amortization on bond premiums	<u>\$ 56,998</u>	<u>\$ 21,315</u>	<u>\$ -</u>	<u>\$ 78,313</u>

See accompanying notes to the basic financial statements



EXHIBIT H  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
June 30, 2018

	Private- Purpose Trust Funds	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents		\$ 472,905
Investments	\$ 189,409	
Due from other funds		174,399
Total Assets	<u>189,409</u>	<u>\$ 647,304</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Total Deferred Outflows of Resources	<u>-</u>	
<b>LIABILITIES</b>		
Due to student groups		\$ 88,453
Deposits		558,851
Total Liabilities	<u>-</u>	<u>\$ 647,304</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Total Deferred Inflows of Resources	<u>-</u>	
<b>NET POSITION</b>		
Held in trust	<u>189,409</u>	
Total Net Position	<u>\$ 189,409</u>	

*See accompanying notes to the basic financial statements*

EXHIBIT I  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
For the Year Ended June 30, 2018

	Private- Purpose <u>Trust Funds</u>
ADDITIONS:	
Contributions:	
Private donations	\$ -
Total Contributions	-
Investment earnings:	
Interest	5,407
Realized loss on investments	(2,343)
Net increase in the fair value of investments	1,926
Total Investment Earnings	4,990
Total Additions	4,990
DEDUCTIONS:	
Benefits	5,316
Total Deductions	5,316
Change in net position	(326)
Net position - beginning	189,735
Net position - ending	\$ 189,409

*See accompanying notes to the basic financial statements*

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

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

The accounting policies of the City of Somersworth, New Hampshire conform to accounting policies generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of significant accounting policies.

***Financial Reporting Entity***

The City of Somersworth, New Hampshire (the City) was incorporated in 1893. The City operates under the City Council/City Manager form of government and performs local governmental functions as authorized by State law.

The financial statements include those of the various departments governed by the City Council and other officials with financial responsibility. The City has no other separate organizational units, which meet criteria for inclusion in the financial statements as defined by the Governmental Accounting Standards Board (GASB).

***Basis of Presentation***

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**1. Government-Wide Financial Statements:**

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

**2. Fund Financial Statements:**

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

***Fund Accounting***

The City uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

**1. Governmental Funds:**

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources, and liabilities and deferred inflows of resources is reported as fund balance. The following is the City's major governmental fund:

The *General Fund* is the main operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.

**2. Proprietary Funds:**

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The City has no internal service funds. The following are the City's major proprietary funds:

The *Water Fund* accounts for all revenues and expenses pertaining to the City's water operations.

The *Sewer Fund* accounts for all revenues and expenses pertaining to the City's wastewater treatment operations.

The Water and Sewer Funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e. expenses including depreciation) of providing goods or services to the residents on a continuing basis are financed or recovered primarily through user charges.

**3. Fiduciary Funds:**

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into two classifications: private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City maintains various private purpose trusts which account for monies designated to benefit individuals within the City. The City's agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The City's agency funds account for Student Activities Funds of the schools and escrow deposits from vendors performing construction within the City.

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

***Measurement Focus***

**1. Government-Wide Financial Statements:**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position.

**2. Fund Financial Statements:**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund type is accounted for on a flow of economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

The private purpose trust fund is reported using the economic resources measurement focus.

***Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue and in the presentation of expenses versus expenditures.

**1. Revenues – Exchange and Non-exchange Transactions:**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

taxes is recognized in the fiscal year for which the taxes are levied (see Note 11). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes, charges for services and interest on investments.

Licenses and permits and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

Grants received before the eligibility requirements are met are recorded as advances from grantors. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources.

**2. Expenses/Expenditures:**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

***Budgetary Data***

The City's budget represents functional appropriations as authorized by the City Council. The Council may transfer funds between operating categories as they deem necessary. The City adopts its budget under State regulations, which differ somewhat from accounting principles generally accepted in the United States of America in that the focus is on the entire governmental unit rather than on the basis of fund types.

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended June 30, 2018, the City applied \$1,385,000 of its unappropriated fund balance to reduce taxes.

***Cash and Cash Equivalents***

The City pools its cash resources for the governmental and proprietary funds. Cash applicable to a particular fund is reflected as an interfund balance. For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of the following:

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

	Due from <u>other funds</u>
Proprietary Funds:	
Water Fund	\$ 2,206,736
Sewer Fund	2,374,253
Nonmajor Fund	<u>122,625</u>
	<u>\$ 4,703,614</u>

***Investments***

Investments are stated at their fair value in all funds. Certificates of deposit and repurchase agreements with a maturity of greater than ninety days from the date of issuance are included in investments.

***Accounts Receivable***

Charges for services billed during the current fiscal year and prior and uncollected at June 30, 2018 are recorded as receivables net of reserves for estimated uncollectibles of \$27,800 and \$33,100 in the Water Fund and Sewer Fund, respectively.

***Taxes Receivable***

Taxes levied during the current fiscal year and prior and uncollected at June 30, 2018 are recorded as receivables net of reserves for estimated uncollectibles of \$188,000.

***Inventory***

The City accounts for its inventories under the average cost method.

The cost of inventory items are recorded as expenditures in the governmental fund types when purchased.

***Capital Assets***

General capital assets result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net position, but are not reported in the governmental fund financial statements.

All capital assets including infrastructure and intangible assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The City maintains a capitalization threshold of \$10,000. The City's infrastructure consists of roads, bridges, sidewalks, water purification and distribution system, sewer collection and treatment system, and similar items. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary capital assets is also capitalized.

All reported capital assets except for land, easements with an indefinite life, software and construction in process are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Infrastructure	5-75
Buildings and improvements	5-75
Vehicles and equipment	2-50

***Compensated Absences and Retirement Benefits***

Employees earn vacation and sick leave as they provide services. Provision is made in the annual budget for vacation and sick leave. Pursuant to City personnel policy and collective bargaining agreements, employees may accumulate (subject to certain limitations) unused sick pay earned and, upon retirement, resignation or death will be compensated for such amounts at current rates of pay.

City teachers may be eligible to receive a retirement incentive. Upon retirement, teachers over the age of 55 years of age shall with a combined age and years of service of at least 70 receive 1% of their current salary multiplied by the number of years of service. After attaining the age of 60, teachers will receive 10% of their last year's salary provided they have twenty years of service with the City.

For governmental fund financial statements, compensated absences and accrued retirement benefits are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee death or retirement. The entire compensated absence liability is reported on the government-wide financial statements.

***Bond Premium***

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

***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they are due for payment during the current fiscal year. General obligation bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

***Postemployment Benefits Other Than Pensions (OPEB)***

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



**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

Investments are reported at fair value, except for non-registered commingled funds valued at net asset value (NAV) as a practical expedient to estimate fair value.

***Pensions***

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

***Net Position***

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

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

***Fund Balance Policy***

Under GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. These components of fund balance are defined as follows:

- *Nonspendable Fund Balance*: Amounts that are not in a spendable form or are required to be maintained intact.
- *Restricted Fund Balance*: Amounts constrained to specific purposes by their providers through constitutional provisions or by enabling legislation.
- *Committed Fund Balance*: Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- *Assigned Fund Balance*: Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- *Unassigned Fund Balance*: Amounts that are available for any purpose; these amounts are reported only in the General Fund.

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

The fund balance of the City may only be committed for specific purposes pursuant to formal action of the City Council. The City Council delegates to the City Manager the authority to assign amounts to be used for specific purposes.

The City's policy is to first apply restricted resources when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications may be applied, committed resources are to be applied first, followed by assigned and unassigned.

In accordance with the City's fund balance policy, the City will strive to maintain an unassigned fund balance in its General Fund equal to 5-17% of the total appropriations of the community (which includes the City, School, and County). The City Council will review this information each year in order to determine the amount, if any, of unassigned fund balance to use to balance the budget and to reduce the property tax rate.

***Interfund Activity***

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in the proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the water fund, sewer fund and solid waste fund, these revenues are charges to customers for sales and services. Operating expenses, which include depreciation on capital assets, are necessary costs incurred to provide the service that is the primary activity of the proprietary fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***Estimates***

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

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

**NOTE 2—DEPOSITS AND INVESTMENTS**

Deposits and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	\$ 14,747,895
Investments	7,337,841
Statement of fiduciary net position:	
Cash and cash equivalents	472,905
Investments	189,409
Total deposits and investments	<u>\$ 22,748,050</u>

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand	\$ 349
Deposits with financial institutions	19,266,978
Investments	3,480,723
Total deposits and investments	<u>\$ 22,748,050</u>

The City's investment policy for governmental fund types requires that deposits and investments be made in New Hampshire based financial institutions that are participants in one of the federal depository insurance programs. The City limits its investments to demand deposits, short-term governmental securities or obligations, certificates of deposit, and repurchase agreements in accordance with New Hampshire State law (RSA 41:29) or the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool. Responsibility for the investments of the Trust Funds is with the Board of Trustees. Investments of the Student Activities Agency Funds are at the discretion of the School Principals.

***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 more its fair value becomes sensitive to changes in market interest rates. The City's investment policy for governmental funds regarding interest rate risk indicates that safety and liquidity are the primary objectives. Investments shall be limited to those with maturity dates which meet projected cash flow needs. The Trustees of Trust Funds do not have a formal investment policy for managing exposure to fair value losses arising from interest rate risk.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of investments by maturity:

<u>Investment Type</u>	<u>Fair Value</u>	Remaining Maturity (In Years)		
		<u>0-1 Years</u>	<u>1-5 Years</u>	<u>&gt; 5 Years</u>
Bond mutual funds	<u>\$ 552,146</u>	<u>\$ -</u>	<u>\$ 364,936</u>	<u>\$ 187,210</u>

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

***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. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The City's investment policy addresses credit risk by limiting investments to the safest types of securities and diversifying the investment portfolio. The City limits its investments to U.S. Treasury securities, U.S. Government agencies, Certificates of Deposit, Overnight Investments, and the New Hampshire Public Deposit Investment Pool. The Trustees of Trust Funds do not have a formal investment policy for managing exposure to credit risk.

The following is the actual rating as of year-end for each investment type:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Ratings as of Year End</u>	
		<u>AAAm</u>	<u>Not Rated</u>
State investment pool	\$ 2,662,365	\$ 2,662,365	
Bond mutual funds	552,146		\$ 552,146
Equity mutual funds	225,858		225,858
	<u>\$ 3,440,369</u>	<u>\$ 2,662,365</u>	<u>\$ 778,004</u>

***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty 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.

In accordance with the City's investment policy, all security transactions must be secured by collateral having a value at least 102% of the cash deposit in each case. The collateral shall only consist of securities in which Cities may invest, as provided in New Hampshire State law (RSA 368:57).

Of the City's deposits with financial institutions at year end, \$18,503,728 was collateralized by securities held by the bank in the bank's name. As of June 30, 2018, City investments in the following investment types were held by the same counterparty that was used to buy the securities.

<u>Investment Type</u>	<u>Reported Amount</u>
Bond mutual funds	\$ 552,146
Equity mutual funds	225,858
Money market funds	40,354
	<u>\$ 818,358</u>

***Investment in NHPDIP***

The City is a voluntary participant in the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool. The NHPDIP is not registered with the United States Securities and Exchange Commission as an investment company. The NHPDIP was created by State law and is administered by a

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

public body of state, local and banking officials. Financial statements for the NHPDIP can be accessed through the NHPDIP's website at [www.NHPDIP.com](http://www.NHPDIP.com).

Investments in the NHPDIP are not investment securities and, as such, are not categorized by risk. The City's exposure to derivatives is indirect through its participation in the NHPDIP. The City's proportional share of these derivatives is not available. The fair value of the position in the investment pool is equal to the value of the pool shares.

***Fair Value Measurement of Investments***

In accordance with GASB Statement 72, *Fair Value Measurement and Application*, the City categorizes the fair value measurements of its investments within the fair value hierarchy established by accounting principles generally accepted in the United States. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows (in order of priority):

- Level 1 Inputs - Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the City has the ability to access at the measurement date.
- Level 2 Inputs - Inputs other than quoted prices that are observable for assets or liabilities either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 Inputs - Significant unobservable inputs.

As of June 30, 2018, the City's investments measured at fair value, by type, were as follows:

<u>Investment Type</u>	<u>Fair Value Measurements Using:</u>			<u>Total</u>
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	
Bond mutual funds	\$ 552,146			\$ 552,146
Equity mutual funds	225,858			225,858
	<u>\$ 778,004</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 778,004</u>

Bond and equity mutual funds classified as Level 1 are valued using unadjusted quoted prices in active markets for those securities.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

**NOTE 3—CAPITAL ASSETS**

The following is a summary of changes in capital assets in the governmental activities:

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 2,272,916			\$ 2,272,916
Easements	170,875			170,875
Software	183,188			183,188
Construction in process	1,299,792	\$ 67,028	\$ (1,299,792)	67,028
Total capital assets not being depreciated	<u>3,926,771</u>	<u>67,028</u>	<u>(1,299,792)</u>	<u>2,694,007</u>
Other capital assets:				
Infrastructure	16,386,936	2,240,664		18,627,600
Buildings and improvements	52,442,881	85,927		52,528,808
Vehicles and equipment	7,044,301	581,390	(150,708)	7,474,983
Total other capital assets at historical cost	<u>75,874,118</u>	<u>2,907,981</u>	<u>(150,708)</u>	<u>78,631,391</u>
Less accumulated depreciation for:				
Infrastructure	(3,641,896)	(657,786)		(4,299,682)
Buildings and improvements	(21,255,204)	(1,172,565)		(22,427,769)
Vehicles and equipment	(5,357,585)	(423,180)	147,852	(5,632,913)
Total accumulated depreciation	<u>(30,254,685)</u>	<u>(2,253,531)</u>	<u>147,852</u>	<u>(32,360,364)</u>
Total other capital assets, net	<u>45,619,433</u>	<u>654,450</u>	<u>(2,856)</u>	<u>46,271,027</u>
Total capital assets, net	<u>\$ 49,546,204</u>	<u>\$ 721,478</u>	<u>\$ (1,302,648)</u>	<u>\$ 48,965,034</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 104,552
Public safety	304,775
Highways and streets	833,001
Culture and recreation	25,006
Education	986,197
Total governmental activities depreciation expense	<u>\$ 2,253,531</u>

The balance of the assets acquired through capital leases as of June 30, 2018, is as follows:

	Vehicles and Equipment	Software
Cost	\$ 1,564,263	\$ 183,188
Less: accumulated depreciation	(770,718)	-
	<u>\$ 793,545</u>	<u>\$ 183,188</u>

The following is a summary of changes in capital assets in the proprietary funds:

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018
Business-type activities:				
Capital asset not depreciated:				
Land	\$ 500,895			\$ 500,895
Software	103,044			103,044
Construction in process	903,257	\$ 187,031	\$ (793,128)	297,160
Total capital assets not being depreciated	1,507,196	187,031	(793,128)	901,099
Other capital assets:				
Infrastructure	13,485,130	775,658		14,260,788
Buildings and improvements	26,253,085	606,925		26,860,010
Vehicles and equipment	1,103,553	41,896		1,145,449
Total other capital assets at historical cost	40,841,768	1,424,479	-	42,266,247
Less accumulated depreciation for:				
Infrastructure	(6,843,996)	(348,873)		(7,192,869)
Buildings and improvements	(14,538,357)	(817,436)		(15,355,793)
Vehicles and equipment	(737,146)	(83,710)		(820,856)
Total accumulated depreciation	(22,119,499)	(1,250,019)	-	(23,369,518)
Total other capital assets, net	18,722,269	174,460	-	18,896,729
Total capital assets, net	\$ 20,229,465	\$ 361,491	\$ (793,128)	\$ 19,797,828

Depreciation was charged to proprietary funds as follows:

Water fund	\$ 546,514
Sewer fund	703,505
Total Business-type activities depreciation expense	<u>\$ 1,250,019</u>

The balance of the assets acquired through capital leases in the proprietary funds as of June 30, 2018, is as follows:

	Software
Cost	\$ 103,044
Less: accumulated depreciation	-
	<u>\$ 103,044</u>

**NOTE 4—LONG-TERM OBLIGATIONS**

***General Long-term Obligations***

The changes in the City's long-term obligations for the year ended June 30, 2018 are as follows:

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018	Due Within One Year
Governmental activities:					
Bonds payable	\$ 17,199,247		\$(1,952,061)	\$ 15,247,186	\$ 1,907,491
Unamortized bond premium	1,294,672		(126,279)	1,168,393	
Total Bonds payable	18,493,919	\$ -	(2,078,340)	16,415,579	1,907,491
Capital leases payable	740,307	350,151	(305,291)	785,167	328,812
Compensated absences	1,679,931	257,150	(203,386)	1,733,695	-
Total governmental activities	\$ 20,914,157	\$ 607,301	\$(2,587,017)	\$ 18,934,441	\$ 2,236,303
Business-type activities:					
Bonds payable	\$ 10,323,466		\$ (970,815)	\$ 9,352,651	\$ 971,536
Unamortized bond premium	460,316		(78,313)	382,003	
Total Bonds payable	10,783,782	\$ -	(1,049,128)	9,734,654	971,536
Capital leases payable	53,706		(26,284)	27,422	
Compensated absences	114,302	13,137	(2,824)	124,615	
Total business-type activities	\$ 10,951,790	\$ 13,137	\$(1,078,236)	\$ 9,886,691	\$ 971,536

Payments on the general obligation bonds and capital leases of the governmental activities are paid out of the General Fund. Payments on the general obligation bonds and capital leases of the business-type activities are paid out of the Water and Sewer Funds. Compensated absences will be paid from the fund where the employee's salary is paid.

***General Obligation Bonds***

**Governmental Activities**

Bonds payable at June 30, 2018 are comprised of the following individual issues:

	Original Issue Amount	Interest Rate	Final Maturity Date	Balance at 6/30/2018
1999 High Street Corridor bonds	\$ 1,300,000	5.20%	August 2019	\$ 130,000
2000 New City Hall bonds	1,400,000	5.08%	January 2021	210,000
2006 Police Station bonds	3,426,127	4.43%	August 2021	900,000
1999 Kindergarten bonds	310,000	5.20%	August 2019	30,000
2008 School Land bonds	1,338,545	3.68%	August 2018	130,000
2009 School bonds	18,953,000	3.73%	January 2030	9,372,936
2014 School HVAC bonds	2,365,550	3.13%	August 2028	451,500
2014 Downtown Improvement bonds	2,365,550	3.13%	August 2028	1,279,250
2015 Downtown Improvement bonds	441,000	2.50%	August 2029	352,800
2015 High Street Improvement bonds	859,500	2.50%	August 2024	598,500
2015 School HVAC bonds	459,000	2.50%	August 2029	367,200
2015 School HVAC bonds	105,000	2.50%	August 2024	70,000
2016 School CTC bonds	1,453,925	2.16%	August 2031	1,355,000
Totals				15,247,186
			Add: Unamortized Bond Premium	1,168,393
			Total Bonds Payable	\$ 16,415,579



**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

Debt service requirements to retire general obligation bonds outstanding at June 30, 2018 are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,907,491	\$ 691,270	\$ 2,598,761
2020	1,733,755	693,197	2,426,952
2021	1,613,397	697,062	2,310,459
2022	1,510,043	706,771	2,216,814
2023	1,238,476	713,884	1,952,360
2024-2028	5,387,649	3,842,872	9,230,521
2029-2032	1,856,375	1,703,084	3,559,459
Total	15,247,186	9,048,140	24,295,326
Add: <i>Unamortized Bond Premium</i>	1,168,393		1,168,393
Total Bonds Payable	<u>\$ 16,415,579</u>	<u>\$ 9,048,140</u>	<u>\$ 25,463,719</u>

Business-type Activities

Bonds payable at June 30, 2018 are comprised of the following individual issues:

	<u>Original Issue Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at 6/30/2018</u>
<u>Water Fund:</u>				
Water treatment plant upgrade bonds	\$ 1,843,500	4.44%	January 2028	\$ 900,000
Water treatment plant bonds	3,193,000	1.92%	February 2028	2,780,000
Downtown Improvement bonds	1,188,946	3.13%	August 2028	869,890
High Street Improvement bonds	95,500	2.50%	August 2024	66,500
				4,616,390
			Add: <i>Unamortized Bond Premium</i>	283,415
				<u>4,899,805</u>
<u>Sewer Fund:</u>				
Wastewater refunding bonds	\$ 7,810,000	2.56%	January 2026	3,975,000
Wastewater treatment facility bonds	524,944	2.95%	January 2029	351,901
Downtown Improvement bonds	559,504	3.13%	August 2028	409,360
				4,736,261
			Add: <i>Unamortized Bond Premium</i>	98,588
				<u>4,834,849</u>
			Total Bonds Payable	<u>\$ 9,734,654</u>

Debt service requirements to retire general obligation bonds for business-type activities at June 30, 2018 are as follows:

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 971,536	\$ 273,047	\$ 1,244,583
2020	977,279	318,266	1,295,545
2021	983,043	285,561	1,268,604
2022	988,831	250,111	1,238,942
2022	999,641	195,726	1,195,367
2024-2028	4,253,477	429,374	4,682,851
2029-2030	178,844	5,717	184,561
Total	9,352,651	1,757,802	11,110,453
Add: <i>Unamortized Bond Premium</i>	382,003		382,003
Total Bonds Payable	<u>\$ 9,734,654</u>	<u>\$ 1,757,802</u>	<u>\$ 11,492,456</u>

The State of New Hampshire annually reimburses the City for its share of sewer related debt service payments. For the year ended June 30, 2018, the reimbursement was \$160,808 in the Sewer Fund.

***Capital Lease Obligations***

Governmental Activities

Capital lease obligations represent lease agreements entered into for the financing of equipment acquisitions. These contracts are subject to cancellation should funds not be appropriated to meet payment obligations. Amounts are annually budgeted in the applicable function. The following are the individual capital lease obligations of the governmental activities at June 30, 2018:

Equipment due in annual installments of \$66,390, including interest at 1.57%, through February 2019	\$ 65,364
Vehicle due in annual installments of \$72,587, including interest at 1.57%, through March 2019	71,466
Software due in annual installments of \$50,864, including interest at 4.25%, through July 2019	48,752
Vehicles due in annual installments of \$132,435, including interest at 2.26%, through July 2019	249,434
Vehicles due in annual installments of \$77,486, including interest at 3.47%, through May 2023	350,151
	<u>\$ 785,167</u>

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2018 are as follows:

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

Year Ending June 30,	Principal	Interest	Total
2019	\$ 328,812	\$ 20,086	\$ 348,898
2020	239,144	14,922	254,066
2021	69,949	7,537	77,486
2022	72,375	5,111	77,486
2023	74,887	2,599	77,486
Total	<u>\$ 785,167</u>	<u>\$ 50,255</u>	<u>\$ 835,422</u>

**Business-type Activities**

The following are the individual capital lease obligations of the business-type activities at June 30, 2018:

Software due in annual installments of \$28,612, including interest at 4.25%, through July 2019	<u>\$ 27,422</u>
---	------------------

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2018 are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ -	\$ -	\$ -
2020	27,422	1,190	28,612
Total	<u>\$ 27,422</u>	<u>\$ 1,190</u>	<u>\$ 28,612</u>

**NOTE 5—OTHER POST-EMPLOYMENT BENEFITS**

***Total OPEB Liabilities, Deferred Outflows of Resources, Deferred Inflows of Resources and OPEB Expense***

	Deferred Outflows	OPEB Liability	Deferred Inflows	OPEB Expense
Cost-Sharing Multiple Employer Plan	\$ 262,646	\$ 2,733,417	\$ 30,971	\$ 150,294
Single Employer Plan	<u>211,337</u>	<u>7,346,405</u>	<u>6,007,659</u>	<u>774,562</u>
Total	<u>\$ 473,983</u>	<u>\$ 10,079,822</u>	<u>\$ 6,038,630</u>	<u>\$ 924,856</u>

The net amount of deferred outflows of resources and deferred inflows of resources related to OPEB is reflected as a decrease to unrestricted net position in the amount of \$5,564,647.

**COST-SHARING MULTIPLE EMPLOYER PLAN**

***Plan Description***

The New Hampshire Retirement System (NHRS) administers a cost-sharing multiple-employer other postemployment benefit plan (OPEB Plan). The OPEB Plan provides a medical insurance subsidy to qualified retired members.

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

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

The OPEB Plan is divided into four membership types. Political subdivision employees, teachers and State employees belong to Group I. Police officers and firefighters belong to Group II. The OPEB plan is closed to new entrants.

***Benefits Provided***

Benefit amounts and eligibility requirements for the OPEB Plan are set by state law (RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b), and members are designated in statute by type. The medical insurance subsidy is a payment made by NHRS to the former employer or its insurance administrator toward the cost of health insurance for a qualified retiree, his/her qualified spouse, and his/her certified dependent children with a disability who are living in the household and being cared for by the retiree. If the health insurance premium amount is less than the medical subsidy amount, then only the health insurance premium amount will be paid. If the health insurance premium amount exceeds the medical subsidy amount, then the retiree or other qualified person is responsible for paying any portion that the employer does not pay.

Group I benefits are based on creditable service, age and retirement date. Group II benefits are based on hire date, age and creditable service. Medical subsidy rates established by RSA 100-A:52 II are dependent upon whether retirees are eligible for Medicare. Retirees not eligible for Medicare may receive a maximum medical subsidy of \$375.56 for a single person plan and \$751.12 for a two person plan. Retirees eligible for Medicare may receive a maximum medical subsidy of \$236.84 for a single person plan and \$473.68 for a two person plan.

***Funding Policy***

Per RSA-100:16, contribution rates are established and may be amended by the New Hampshire State legislature and are determined by the NHRS Board of Trustees based on an actuarial valuation. The City's contribution rates for the covered payroll of public safety employees, political subdivision employees and teachers were 4.10%, 0.30% and 1.66%, respectively, for the year ended June 30, 2018. Contributions to the OPEB plan for the City were \$262,646 for the year ended June 30, 2018. Employees are not required to contribute to the OPEB plan.

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

At June 30, 2018, the City reported a liability of \$2,733,417 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by a roll forward of the actuarial valuation from June 30, 2016. The City's proportion of the net OPEB liability was based on actual contributions by the City during the relevant fiscal year relative to the actual contributions of all participating plan members, excluding contributions to separately finance specific liabilities of individual employers or NHRS. At June 30, 2017, the City's proportion was approximately 0.5978 percent, which was a decrease of 0.0153 percentage points from its proportion measured as of June 30, 2016.

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

For the year ended June 30, 2018, the City recognized OPEB expense of \$150,294. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Net difference between projected and actual earnings on OPEB plan investments		\$ 8,625
Changes in proportion and differences between City contributions and proportionate share of contributions		22,346
City contributions subsequent to the measurement date	\$ 262,646	
Totals	<u>\$ 262,646</u>	<u>\$ 30,971</u>

The City reported \$262,646 as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net OPEB liability in the measurement period ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense for the measurement periods as follows:

<u>June 30,</u>	
2018	\$ (24,503)
2019	(2,157)
2020	(2,157)
2021	(2,154)
	<u>\$ (30,971)</u>

***Actuarial Assumptions***

The total OPEB liability was determined by a roll forward of the actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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

Mortality rates were based on the RP-2014 healthy annuitant and employee generational mortality tables for males and females with credibility adjustments, adjusted for fully generational mortality improvements using scale MP-2015, based on the last experience study.

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

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

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

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

The discount rate used to measure the collective total OPEB liability as of June 30, 2017 was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made under the current statute RSA 100-A:16 and that plan member contributions will be made under RSA 100-A:16. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the collective total OPEB liability.

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate***

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

	1% Decrease <u>(6.25%)</u>	Current Discount Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
Net OPEB Liability	\$ 2,974,771	\$ 2,733,417	\$ 2,524,303

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

**SINGLE EMPLOYER PLAN**

***Plan Description***

The City of Somersworth, New Hampshire administers the retiree health care benefits program, a single employer defined benefits plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time employees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

***Benefits Provided***

The City provides medical, life insurance, and dental benefits to its eligible retirees and their dependents. General employees and their spouses are eligible to receive the benefits upon retirement with an attained age of 60 and at least 10 years of service or a combined age and service of 70 years. Police and firefighters and their spouses are eligible to receive this benefit upon retirement with an attained age of 45 with at least 20 years of service. All school employees are eligible to receive coverage upon retirement. Teachers are eligible to receive retiree medical coverage at no cost until age 65 if they were employed by the City prior to July 1, 2005 and retire between the ages of 55 and 60. All other retirees and spouses of retirees pay the full cost of the health care coverage. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50.

***Employees Covered By Benefit Terms***

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	166
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>41</u>
	<u>207</u>

***Total OPEB Liability***

The City's total OPEB liability of \$7,346,405 was measured as of June 30, 2017, and was determined by an actuarial valuation as of July 1, 2017.

***Actuarial Assumptions and Other Inputs for OPEB***

The total OPEB liability in the July 1, 2017 valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	5.00 percent
Discount rate	2.71 percent
Healthcare cost trend rates	7.50% for 2018, decreasing 0.15% per year to an ultimate rate of 4.50% for 2038 and later years.

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

The discount rate was based on the S&P municipal bond 20 year high grade rate index as of the measurement date.

Mortality rates were based on the RP-2017 Combined Healthy Mortality Table for males and females backed off to 2006 and projected generationally using Scale MP-2017. The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2010 – June 30, 2015.

***Changes in the Total OPEB Liability***

	Total OPEB <u>Liability</u>
Balance at June 30, 2017	\$ 12,522,983
Changes for the year:	
Service Cost	437,287
Interest	337,275
Changes of benefit terms	-
Differences between expected and actual experience	(2,821,012)
Changes in assumptions or other inputs	(2,975,310)
Benefit payments	(154,818)
Net changes	<u>(5,176,578)</u>
Balance at June 30, 2018	<u>\$ 7,346,405</u>

Changes of assumptions and other inputs reflect a change in the discount rate of 2.71% at June 30, 2017 to 3.13% at June 30, 2018. Mortality tables were updated to the RP-2014 Combined Healthy Mortality Table for males and females backed off to 2006 and projected generationally using Scale MP-2017. Termination rates were updated to reflect the 2003 SOA Pension Plan Turnover Study. Healthcare trend rates were increased to 7.50% scaling down to 4.50%, employee plan participation rates were decreased to 70%, marriage rates were decreased to 30%, and the lapse rate was increased to 10%.

***Sensitivity of the Total OPEB Liability to Changes in the Discount Rate***

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (2.13%)	Current Discount Rate (3.13%)	1% Increase (4.13%)
Total OPEB Liability	\$ 8,215,325	\$ 7,346,405	\$ 6,611,875

***Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate***

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.50 percent decreasing to 3.50 percent) or 1-percentage-point higher (8.50 percent decreasing to 5.50 percent) than the current healthcare cost trend rate:



**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

	1% Decrease (6.50% decreasing <u>to 3.50%</u> )	Healthcare Cost Trend Rates (7.50% decreasing <u>to 4.50%</u> )	1% Increase (8.50% decreasing <u>to 5.50%</u> )
Total OPEB Liability	\$ 6,714,478	\$ 7,346,405	\$ 8,080,733

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

For the year ended June 30, 2018, the City recognized OPEB expense of \$774,562. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 211,337	\$ 3,032,349
Changes of assumptions		<u>2,975,310</u>
Totals	<u>\$ 211,337</u>	<u>\$ 6,007,659</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>June 30,</u>	
2019	\$ (914,246)
2020	(914,246)
2021	(914,246)
2022	(914,246)
2023	(914,246)
Thereafter	<u>(1,225,092)</u>
	<u>\$ (5,796,322)</u>

**NOTE 6—DEFINED BENEFIT PENSION PLAN**

***Plan Description***

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

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

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

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

***Benefits Provided***

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

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

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

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

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

***Funding Policy***

Covered police officers and fire employees are required to contribute 11.55% and 11.80%, respectively of their covered salary, whereas teachers and general employees are required to contribute 7.0% of their covered salary. The City is required to contribute at an actuarially determined rate. The City's contribution rates for the covered payroll of police officers, fire employees, teachers, and general employees were 25.33%, 27.79%, 15.70%, and 11.08%, respectively. The City contributes 100% of the employer cost for police officers, fire employees, teachers, and general employees of the City.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The City's contributions to the NHRS for the year ending June 30, 2018 were \$2,642,558.

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

At June 30, 2018, the City reported a liability of \$30,683,127 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by a roll forward of the actuarial valuation from June 30, 2016. The City's proportion of the net pension liability was based on actual contributions by the City during the relevant fiscal year relative to the actual contributions of all participating plan members, excluding contributions to separately finance specific liabilities of individual employers or NHRS. At June 30, 2016, the City's proportion was approximately 0.6239 percent, which was a decrease of 0.0189 percentage points from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City recognized pension expense of \$3,190,475. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 69,572	\$ 390,508
Net difference between projected and actual earnings on pension plan investments		390,765
Changes of assumptions	3,080,991	
Changes in proportion and differences between City contributions and proportionate share of contributions	371,859	799,548
City contributions subsequent to the measurement date	<u>2,642,558</u>	<u></u>
Totals	<u>\$ 6,164,980</u>	<u>\$ 1,580,821</u>

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions is reflected as an increase to unrestricted net position in the amount of \$4,584,159. The City reported \$2,642,558 as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense for the measurement periods as follows:

<u>June 30,</u>	
2018	\$ 500,517
2019	1,221,249
2020	880,851
2021	(661,016)
	<u>\$ 1,941,601</u>

***Actuarial Assumptions***

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

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

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

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

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

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

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

***Discount Rate***

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

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

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

	1% Decrease <u>(6.25%)</u>	Current Discount Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
City's proportionate share of the net pension liability	\$ 40,423,479	\$ 30,683,127	\$ 22,761,294

**NOTE 7—POLLUTION REMEDIATION OBLIGATION**

On September 8, 1983, the Somersworth Sanitary Landfill was placed on the National Priority Listing (NPL) by the Environmental Protection Agency (EPA). The EPA concluded the City's landfill contained fourteen contaminants that had a principal threat to human health and the environment and were in violation of various Federal and State drinking water acts. From the proposed remedial action alternatives, included in the Feasibility Study prepared by the City and other potentially responsible parties in 1993, the EPA selected a remedy that provides treatment of contaminated overburden and bedrock ground water with flushing of contamination from the source area. The key element of this process is the construction of a permeable treatment wall composed of impermeable barrier sections and innovative, permeable, chemical treatment sections to provide in-situ, flow-through treatment of contaminated ground water at

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

the landfill waste boundary. The ground water will be extracted from the bedrock downgradient of the landfill and be pumped to a monitoring well, which will further reduce the contamination in the bedrock ground water. To accelerate flushing of the landfill, the ground water extracted from the bedrock will be reapplied to the landfill. This process allows the ground water to clean itself in the shortest time feasible, approximately fifty-five years. The estimated total cost of this alternative, in 1993 dollars, was \$14,984,800.

The City reached an agreement with a potentially responsible party that all construction and subsequent monitoring costs would be split 50.5% and 49.5% between the City and the potentially responsible party, respectively. The total estimated pollution remediation liability and the estimated recoveries from the potentially responsible party are recognized in these financial statements.

On September 9, 2005, the physical construction of the remedy was completed, and minor punch list items remained. The EPA requires the City to perform certain maintenance and monitoring functions at the landfill through September 2056. As of June 30, 2018, the City estimates the pollution remediation obligation to be \$5,642,391 and estimated recoveries from the potentially responsible party of \$2,792,984. The estimated obligation was calculated using the expected cash flow technique measured at current value. In making this estimate, the City assumed a 70% likelihood current monitoring procedures would be adequate and 30% likelihood additional monitoring procedures would be required through 2056 and there would be no unforeseen repairs or changes in EPA's evaluation of the remediation process. This estimate has the potential to changes due to factors such as price increases or decreases, changes in technology, or changes in applicable laws or regulations.

**NOTE 8—RESTRICTED NET POSITION**

Net position is restricted for specific purposes as follows:

	Governmental Activities
Permanent Funds - Principal	\$ 179,676
Permanent Funds - Income	14,502
City capital projects	21,584
School capital projects	35,373
SB 38 Highway block grant	195,014
Pollution remediation	76,314
Food service operations	104,130
Police forfeiture	148,665
Grants	308,316
	<u>\$ 1,083,574</u>

**NOTE 9—INTERFUND BALANCES AND TRANSFERS**

The City has combined the cash resources of its governmental and proprietary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is recorded in the specific fund as an interfund balance. Interfund balances at June 30, 2018 are as follows:

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

	Due from		
	General	Nonmajor	
	Fund	Governmental	Totals
		Funds	
General Fund		\$ 700,524	\$ 700,524
Nonmajor Governmental Funds	\$ 886,536		886,536
Water Fund	2,206,736		2,206,736
Sewer Fund	2,374,253		2,374,253
Nonmajor Enterprise Fund	122,625		122,625
Agency Funds	174,399		174,399
	<u>\$ 5,764,549</u>	<u>\$ 700,524</u>	<u>\$ 6,465,073</u>

During the year, several interfund transactions occurred between funds. The various transfers were made in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2018 are as follows:

	Transfer from		
	General	Nonmajor	
	Fund	Governmental	Totals
		Funds	
Nonmajor Governmental Funds	\$ 3,013	\$ 272,300	\$ 275,313

**NOTE 10—COMPONENTS OF FUND BALANCE**

The components of the City's fund balance for its governmental funds at June 30, 2018, are as follows:

	General	Nonmajor	Total
	Fund	Governmental	Governmental
		Funds	Funds
<b>Nonspendable for:</b>			
Prepaid expenses	\$ 79,981		\$ 79,981
Permanent Funds - principal		\$ 179,676	179,676
<b>Restricted for:</b>			
Pollution remediation	76,314		76,314
Capital projects		56,957	56,957
Permanent Funds - income		14,502	14,502
SB 38 Highway block grant		195,014	195,014
Food service operations		104,130	104,130
Police forfeiture		148,665	148,665
Grants		308,316	308,316

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

<b>Committed for:</b>			
Capital Reserve	207,057		207,057
Encumbrances	708,371		708,371
Transportation improvement projects		162,091	162,091
Conservation		125,882	125,882
Cable Communications		191,914	191,914
School operations		59,050	59,050
Other trusts		60,493	60,493
<b>Assigned for:</b>			
Encumbrances	50,864		50,864
<b>Unassigned:</b>			
Unassigned - General operations	3,838,947		3,838,947
	<u>\$ 4,961,534</u>	<u>\$ 1,606,690</u>	<u>\$ 6,568,224</u>

**NOTE 11—PROPERTY TAXES**

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$848,890,625 as of April 1, 2017) and are due in two installments on July 5, 2017 and December 15, 2017. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year-end).

Under State law, the Tax Collector obtains tax liens on properties which have unpaid taxes in the following calendar year after taxes were due for the amount of unpaid taxes, interest and costs. These priority tax liens accrue interest at 18% per annum. If the property is not redeemed within a two year redemption period, the property may be tax deeded to the City.

In accordance with State law, the City collects taxes for Strafford County, an independent governmental unit, which are remitted to the County as required by law. Total taxes appropriated during the year were \$2,382,236 for Strafford County. These taxes are not recognized as revenues in these financial statements. The City bears responsibility for uncollected taxes.

**NOTE 12—COMMITMENTS**

***Waste Disposal and Recycling***

The City entered into a long-term contract with an independent company to provide municipal solid waste disposal and recycling collection. The contract is effective for the period July 1, 2015 through June 30, 2020. Terms of the agreement call for payment on a per ton rate which increases annually and ranges from \$157 to \$165 for municipal solid waste and \$180 to \$184 for recycling. The agreement includes a bi-annual fuel adjustment based on the average cost of diesel fuel for the previous six months.

For the year ended June 30, 2018, the City expended \$344,169 and \$162,792 for solid waste and recycling services, respectively, under the terms of the agreement.



**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

**NOTE 13—RISK MANAGEMENT**

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ended June 30, 2018, the City was a member of and participated in a public entity risk pool (Trust) for property and liability insurance and worker's compensation coverage. Coverage has not been significantly reduced from the prior year and settled claims have not exceeded coverage in any of the past three years.

The Trust agreements permit the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2018.

***Property and Liability Insurance***

The Trust provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the Trust, the City shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self-Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000, up to an aggregate of \$1,200,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

***Worker's Compensation***

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

**NOTE 14—CONTINGENT LIABILITIES**

***Litigation***

There may be various claims and suits pending against the City, which arise in the normal course of the City's activities. In the opinion of City management, any potential claims against the City which are not covered by insurance are immaterial and would not affect the financial position of the City.

***Federal Grants***

The City participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amounts, if any, of

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2018**

expenditures which may be disallowed by the granting agency cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**NOTE 15—RESTATEMENT OF NET POSITION**

During the year ended June 30, 2018, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

***Government-Wide Statements***

The impact on net position of the Governmental Activities and Business-type Activities as of July 1, 2017 is as follows:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>
Net Position, July 1, 2017 (as previously reported)	\$ 3,357,700	\$ 14,321,734
Amount of restatement due to:		
Deferred outflows of resources related to OPEB	347,013	7,313
OPEB Liability	<u>(10,926,467)</u>	<u>(150,985)</u>
Net Position, July 1, 2017 - as restated	<u>\$ (7,221,754)</u>	<u>\$ 14,178,062</u>

***Proprietary Funds***

The impact on net position of the Water and Sewer Funds as of July 1, 2017 is as follows:

	Water <u>Fund</u>	Sewer <u>Fund</u>
Net Position, July 1, 2017 (as previously reported)	\$ 3,995,300	\$ 10,238,324
Amount of restatement due to:		
Deferred outflows of resources related to OPEB	3,917	3,396
OPEB Liability	<u>(116,277)</u>	<u>(34,708)</u>
Net Position, July 1, 2017 - as restated	<u>\$ 3,882,940</u>	<u>\$ 10,207,012</u>

**NOTE 16—SUBSEQUENT EVENT**

***Bond Authorization***

During October 2018, City Council authorized the issuance of bonds in an amount not to exceed \$1,640,000 for the purpose of renovations to the Maple Wood Elementary School.

SCHEDULE 1  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis) - General Fund**  
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 25,772,721	\$ 25,772,721	\$ 25,667,305	\$ (105,416)
Licenses and permits	1,700,625	1,700,625	2,046,351	345,726
Intergovernmental	9,335,976	9,519,260	9,572,171	52,911
Charges for services	649,849	649,849	620,015	(29,834)
Interest income	30,000	30,000	124,396	94,396
Miscellaneous	261,250	261,250	388,221	126,971
Total Revenues	<u>37,750,421</u>	<u>37,933,705</u>	<u>38,418,459</u>	<u>484,754</u>
Expenditures:				
Current operations:				
Elected leadership	128,511	128,511	123,654	4,857
City management	477,721	477,721	454,877	22,844
Finance and administration	1,181,314	1,181,314	1,104,564	76,750
Development services	1,002,395	1,002,395	943,148	59,247
Fire and rescue	2,179,394	2,179,394	2,061,980	117,414
Police	3,811,782	3,811,782	3,640,347	171,435
Public works and utilities	3,258,980	3,258,980	3,181,848	77,132
School	25,725,172	26,137,172	25,911,191	225,981
Other	402,277	402,277	349,931	52,346
Capital outlay	203,915	203,915	199,489	4,426
Debt service:				
Principal retirement	596,775	596,775	596,775	-
Interest and fiscal charges	174,587	174,587	174,586	1
Total Expenditures	<u>39,142,823</u>	<u>39,554,823</u>	<u>38,742,390</u>	<u>812,433</u>
Excess revenues (under) expenditures	<u>(1,392,402)</u>	<u>(1,621,118)</u>	<u>(323,931)</u>	<u>1,297,187</u>
Other financing sources (uses):				
Transfers in	108,000	108,000	106,192	(1,808)
Transfers out	(100,598)	(100,598)	(100,598)	-
Total other financing sources (uses)	<u>7,402</u>	<u>7,402</u>	<u>5,594</u>	<u>(1,808)</u>
Net change in fund balance	(1,385,000)	(1,613,716)	(318,337)	1,295,379
Fund balance at beginning of year				
- Budgetary Basis	<u>4,926,680</u>	<u>4,926,680</u>	<u>4,926,680</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 3,541,680</u>	<u>\$ 3,312,964</u>	<u>\$ 4,608,343</u>	<u>\$ 1,295,379</u>

See accompanying notes to the required supplementary information

SCHEDULE 2

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**

**Schedule of Changes in the City's Proportionate Share of the Net OPEB Liability**

For the Year Ended June 30, 2018

<u>Measurement Period Ended</u>	<u>Cost-Sharing Multiple Employer Plan Information Only</u>				
	<u>City's Proportion of the Net OPEB Liability</u>	<u>City's Proportionate Share of the Net OPEB Liability</u>	<u>City's Covered Payroll</u>	<u>City's Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</u>
June 30, 2017	0.59781594%	\$ 2,733,417	\$ 16,535,231	16.53%	7.91%
June 30, 2016	0.61317648%	\$ 2,968,420	\$ 16,568,181	17.92%	5.21%

*See accompanying notes to the required supplementary information*

SCHEDULE 3  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Schedule of City OPEB Contributions**  
For the Year Ended June 30, 2018

<b>Cost-Sharing Multiple Employer Plan Information Only</b>					
<u>Year Ended</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	\$ 263,021	\$ (263,021)	\$ -	\$ 16,767,460	1.57%
June 30, 2017	\$ 354,326	\$ (354,326)	\$ -	\$ 16,535,231	2.14%
June 30, 2016	\$ 356,292	\$ (356,292)	\$ -	\$ 16,568,181	2.15%

*See accompanying notes to the required supplementary information*

SCHEDULE 4  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Schedule of Changes in the City's Total OPEB Liability and Related Ratios**  
For the Year Ended June 30, 2018

<u>Single Employer Plan Information Only</u>		<u>2018</u>
Total OPEB Liability:		
Service cost	\$	437,287
Interest		337,275
Changes of benefit terms		-
Changes of assumptions or other inputs		(2,975,310)
Differences between expected and actual experience		(2,821,012)
Benefit payments		<u>(154,818)</u>
Net change in total OPEB liability		(5,176,578)
Total OPEB liability - beginning		<u>12,522,983</u>
Total OPEB liability - ending		<u>\$ 7,346,405</u>
Covered employee payroll		\$16,069,210
Total OPEB liability as a percentage of covered employee payroll		45.72%

*See accompanying notes to the required supplementary information*

SCHEDULE 5

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**

**Schedule of Changes in the City's Proportionate Share of the Net Pension Liability**  
For the Year Ended June 30, 2018

<u>Measurement Period Ended</u>	<u>City's Proportion of the Net Pension Liability</u>	<u>City's Proportionate Share of the Net Pension Liability</u>	<u>City's Covered Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2017	0.62389532%	\$ 30,683,127	\$ 16,535,231	185.56%	62.66%
June 30, 2016	0.64279686%	\$ 34,181,336	\$ 16,568,181	206.31%	58.30%
June 30, 2015	0.63410194%	\$ 25,120,120	\$ 16,218,949	154.88%	65.47%
June 30, 2014	0.63944877%	\$ 24,002,258	\$ 15,764,272	152.26%	66.32%
June 30, 2013	0.63002872%	\$ 27,115,078	\$ 15,319,843	176.99%	59.81%

*See accompanying notes to the required supplementary information*

SCHEDULE 6  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Schedule of City Pension Contributions**  
For the Year Ended June 30, 2018

<u>Year Ended</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	\$ 2,642,558	\$ (2,642,558)	\$ -	\$ 16,767,460	15.76%
June 30, 2017	\$ 2,285,515	\$ (2,285,515)	\$ -	\$ 16,535,231	13.82%
June 30, 2016	\$ 2,301,721	\$ (2,301,721)	\$ -	\$ 16,568,181	13.89%
June 30, 2015	\$ 2,127,337	\$ (2,127,337)	\$ -	\$ 16,218,949	13.12%
June 30, 2014	\$ 2,074,520	\$ (2,074,520)	\$ -	\$ 15,764,272	13.16%

*See accompanying notes to the required supplementary information*



**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Year Ended June 30, 2018**

**NOTE 1—BUDGET TO ACTUAL RECONCILIATION**

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund (Schedule 1) are reported on the basis budgeted by the City. Those amounts differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). Property tax budgetary revenues are recognized when levied rather than when susceptible to accrual. Budgetary revenues and other financing sources and expenditures and other financing uses were adjusted for encumbrances, capital lease activity, non-budgetary revenues and expenditures, non-budgetary transfers out and budgetary transfers in and out as follows:

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 38,630,018	\$ 38,461,293
Difference in property taxes meeting susceptible to accrual criteria	143,186	
Encumbrances - June 30, 2017		(85,257)
Encumbrances - June 30, 2018		759,235
Capital lease activity	(350,151)	(350,151)
Non-budgetary revenues and expenditures	(4,594)	(42,730)
Budgetary transfers in and out	106,192	100,598
Per Schedule 1	<u>\$ 38,524,651</u>	<u>\$ 38,842,988</u>

**NOTE 2—BUDGETARY FUND BALANCE**

The components of the budgetary fund balance for the General Fund are as follows:

<b>Nonspendable for:</b>	
Prepaid expenses	\$ 79,981
<b>Unassigned for:</b>	
General operations	4,528,362
	<u>\$ 4,608,343</u>

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)**  
**For the Year Ended June 30, 2018**

**NOTE 3—SCHEDULE OF CHANGES IN THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY AND SCHEDULE OF CITY OPEB CONTRIBUTIONS**

In accordance with GASB Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the City is required to disclose historical information for each of the prior ten years within a schedule of changes in the City's proportionate share of the net OPEB liability, and schedule of City OPEB contributions. The City implemented the provisions of GASB Statement #75 during the year ended June 30, 2018. Accordingly, the historic information has only been presented for those years which information was readily available. Additional disclosures will be made in future years as additional information becomes available.

**NOTE 4—SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS**

In accordance with GASB Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the City is required to disclose historical information for each of the prior ten years within a schedule of changes in the City's total OPEB liability and related ratios. The City implemented the provisions of GASB Statement #75 during the year ended June 30, 2018. Accordingly, the historic information has only been presented for those years which information was readily available. Additional disclosures will be made in future years as additional information becomes available.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

***Change in Actuarial Assumptions***

For the July 1, 2017 actuarial valuation a discount rate of 2.71% was used. The discount rate was increased to 3.13% in determining the balances at June 30, 2018.

**NOTE 5—SCHEDULE OF CHANGES IN THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF CITY CONTRIBUTIONS**

In accordance with GASB Statement #68, *Accounting and Financial Reporting for Pensions*, the City is required to disclose historical information for each of the prior ten years within a schedule of changes in the City's proportionate share of the net pension liability, and schedule of City contributions. The City implemented the provisions of GASB Statement #68 during the year ended June 30, 2015. Accordingly, the historic information has only been presented for those years which information was readily available. Additional disclosures will be made in future years as additional information becomes available.

***Changes in Actuarial Assumptions***

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

SCHEDULE I  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Schedule of Expenditures of Federal Awards**  
For the Year Ended June 30, 2018

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>DEPARTMENT OF AGRICULTURE</b>			
Pass Through Payments from New Hampshire Department of Education <b>Child Nutrition Cluster:</b>			
School Breakfast Program	10.553	\$ -	\$ 111,951
National School Lunch Program	10.555		330,816
School Lunch			60,202
Commodities		-	391,018
<b>Total Child Nutrition Cluster</b>		-	502,969
Fresh Fruit and Vegetable Program	10.582	-	50,766
<b>Total Department of Agriculture</b>		-	553,735
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Pass Through Payments from the New Hampshire Community Development Finance Authority Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii #15-218-CDHS	14.228	119,349	119,771
<b>Total Department of Housing and Urban Development</b>		119,349	119,771
<b>DEPARTMENT OF JUSTICE</b>			
Received directly from U.S. Treasury Department Public Safety Partnership and Community Policing Grants #COPS-2015-UM-WX-0061	16.710	-	57,841
Pass Through Payments from the County of Strafford, New Hampshire Edward Byrne Memorial Justice Assistance Grant Program #2015-DJ-BX-0271 #2016-DJ-BX-0040	16.738	1,020	1,020
			5,276
		1,020	6,296
<b>Total Department of Justice</b>		1,020	64,137
<b>DEPARTMENT OF TRANSPORTATION</b>			
Pass Through Payments from the New Hampshire Department of Highway Safety and Transportation Highway Planning and Construction #X-A004(606)	20.205		17,018
		-	17,018

See notes to the schedule of expenditures of federal awards

SCHEDULE I  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Schedule of Expenditures of Federal Awards (Continued)**  
For the Year Ended June 30, 2018

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>DEPARTMENT OF TRANSPORTATION (CONTIUED)</b>			
<b>Highway Safety Cluster:</b>			
State and Community Highway Safety	20.600		
#315-17A-024			1,966
#315-18A-025			1,281
#318-18A-013			1,414
			<u>4,661</u>
National Priority Safety Programs	20.616		
#308-17A-114			189
#310-18A-019			879
			<u>1,068</u>
<b>Total Highway Safety Cluster</b>			<u>5,729</u>
<b>Total Department of Transportation</b>			<u>22,747</u>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>			
Pass Through Payments from the New Hampshire Department of Environmental Services			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		
Breton Cleaners #14261			109,700
<b>Total Environmental Protection Agency</b>			<u>109,700</u>
<b>DEPARTMENT OF EDUCATION</b>			
Pass Through Payments from New Hampshire Department of Education			
Title I Grants to Local Educational Agencies	84.010		
#70131			74,239
#71609			9,989
#80131			662,334
#80330			29,682
			<u>776,244</u>
<b>Special Education Cluster:</b>			
Special Education - Grants to States	84.027		
#82658			403,565
Special Education - Preschool Grants	84.173		
#72629			3,225
#82641			272
#82658			12,397
			<u>15,894</u>
<b>Total Special Education Cluster</b>			<u>419,459</u>

*See notes to the schedule of expenditures of federal awards*

SCHEDULE I  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Schedule of Expenditures of Federal Awards (Continued)**  
For the Year Ended June 30, 2018

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>DEPARTMENT OF EDUCATION (CONTINUED)</b>			
Career and Technical Education - Basic Grants to States	84.048		
#75034			9,394
#85014			92,095
		-	101,489
Twenty-First Century Community Learning Centers	84.287		
#86285		-	164,797
English Language Acquisition State Grants	84.365		
#60807			4,282
#70808			13,420
#80808			6,393
#80841			434
		-	24,529
Supporting Effective Instruction State Grants	84.367		
#78889			3,108
#84931			115,161
		-	118,269
School Improvement Grants	84.377		
#70407		-	186,017
<b>Total Department of Education</b>		-	1,790,804
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Pass Through Payments from the New Hampshire Department of Health and Human Services Drug-Free Communities Support Program Grants			
#SP020829	93.276	-	114,471
<b>Total Department of Health and Human Services</b>		-	114,471
<b>DEPARTMENT OF HOMELAND SECURITY</b>			
Pass Through Payments from New Hampshire Department of Safety Emergency Management Performance Grants			
#EMB-2016-EP-00001-S0	97.042	-	4,500
Homeland Security Grant Program	97.067		
#EMW-2015-SS-000-140			5,924
#EMB-2016-EP-00001-S0			6,000
		-	11,924
<b>Total Department of Homeland Security</b>		-	16,424
<b>Total Expenditures of Federal Awards</b>		\$ 120,369	\$ 2,791,789

See notes to the schedule of expenditures of federal awards

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2018**

**NOTE 1—BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the City of Somersworth, New Hampshire (the City) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Somersworth, New Hampshire, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Somersworth, New Hampshire.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursements. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**NOTE 3—INDIRECT COST RATE**

The City of Somersworth, New Hampshire has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 4—RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

The recognition of expenditures of federal awards has been reported in the City's basic financial statements as intergovernmental revenues in the Major and Nonmajor Governmental Funds as follows:

Major Funds:	
General Fund	\$ 63,570
Nonmajor Governmental Funds	<u>2,668,017</u>
	<u>\$ 2,731,587</u>

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

Independent Auditor's Report

To the Honorable Mayor, City Council and Manager  
City of Somersworth, New Hampshire

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somersworth, New Hampshire, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Somersworth, New Hampshire's basic financial statements, and have issued our report thereon dated February 7, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Somersworth, New Hampshire's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Somersworth, New Hampshire's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Somersworth, New Hampshire's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vachon Aubrey & Company PC". The signature is written in a cursive, flowing style.

Manchester, New Hampshire  
February 7, 2019



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

To the Honorable Mayor, City Council and Manager  
City of Somersworth, New Hampshire

**Report on Compliance for Each Major Federal Program**

We have audited the City of Somersworth, New Hampshire's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Somersworth, New Hampshire's major federal programs for the year ended June 30, 2018. The City of Somersworth, New Hampshire's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Somersworth, New Hampshire's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Somersworth, New Hampshire's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Somersworth, New Hampshire's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the City of Somersworth, New Hampshire complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

Management of the City of Somersworth, New Hampshire is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Somersworth, New Hampshire's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Somersworth, New Hampshire's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Manchester, New Hampshire  
February 7, 2019

**City of Somersworth, New Hampshire  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018**

**Section I--Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:

Unmodified – all reporting units

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes      X   no

Significant deficiency(ies) identified

\_\_\_\_\_ yes      X   none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes      X   no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ yes      X   no

Significant deficiency(ies) identified

\_\_\_\_\_ yes      X   none reported

Type of auditor's report issued on compliance  
for major federal programs:

Unmodified

Any audit findings disclosed that are required  
to be reported in accordance with  
2 CFR 200.516(a)?

\_\_\_\_\_ yes      X   no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027 & 84.173	Special Education Cluster
84.287	Twenty-First Century Community Learning Centers

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee?

  X   yes    \_\_\_\_\_ no

## **Section II--Financial Statement Findings**

There were no findings relating to the financial statements required to be reported by GAGAS.

## **Section III--Federal Award Findings and Questioned Costs**

There were no findings and questioned costs as defined under 2 CFR 200.516(a).