

CITY OF SOMERSWORTH, NEW HAMPSHIRE

Financial Statements

With Schedule of Expenditures of Federal Awards

June 30, 2019

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, 2019

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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, 2019, 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, 2019, 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 March 20, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Somersworth, New Hampshire's 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.

Vashon Clukay & Company PC

Manchester, New Hampshire
March 20, 2020

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, 2019. 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 \$12,453,923, presented as "net position" shown on the Statement of Net Position for the Total Primary Government. The City's Net Position increased by \$3,496,864 compared to the prior year.

- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$8,320,925, a change of \$1,703,320 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,378,580, a change of \$539,633 in comparison with the prior year. Due to City Council action, \$1,050,000 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 \$24,722,623, a change of (\$1,427,610) 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 of dollars.

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$25,570	\$22,133	\$ 7,794	\$ 6,820	\$33,364	\$28,953
Capital assets	48,790	48,965	19,123	19,798	67,913	68,763
Total assets	74,360	71,098	26,917	26,618	101,277	97,716
Total deferred outflow of resources	5,749	6,256	157	383	5,906	6,639
Long-term liabilities outstanding	61,261	61,695	9,302	10,176	70,563	71,871
Other liabilities	4,587	3,465	1,428	1,258	6,015	4,723
Total liabilities	65,848	65,160	10,730	11,434	76,578	76,594
Total deferred inflow of resources	17,778	18,643	373	210	18,151	18,853
Net Position:						
Invested in capital assets, net	32,947	31,680	10,257	10,036	43,204	41,716
Restricted	953	1,084	-	-	953	1,084
Unrestricted (Deficit)	(37,417)	(39,213)	5,714	5,321	(31,703)	(33,892)
Total Net Position	\$ (3,517)	\$ (6,449)	\$15,971	\$15,357	\$12,454	\$ 8,908

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 902	\$ 1,048	\$ 5,776	\$ 5,557	\$ 6,678	\$ 6,605
Operating grants and contributions	10,731	11,287	-	-	10,731	11,287
Capital grants and contributions	751	692	34	38	785	730
General revenues:					-	-
Taxes	26,077	25,701	-	-	26,077	25,701
Licenses and permits	2,304	2,111	-	-	2,304	2,111
Intergovernmental	603	603	-	-	603	603
Interest	353	140	-	-	353	140
Miscellaneous	527	537	58	45	585	582
Pollution remediation assumptions	(411)					
Total revenues	41,837	42,119	5,868	5,640	48,116	47,759
Expenses:						
General government	1,903	1,928	-	-	1,903	1,928
Public safety	6,228	6,484	-	-	6,228	6,484
Highways and streets	2,918	2,833	-	-	2,918	2,833
Health and welfare	291	249	-	-	291	249
Culture and recreation	498	640	-	-	498	640
School department	26,557	28,642	-	-	26,557	28,642
Interest	560	570	-	-	560	570
Other	-	-	-	-	-	-
Water operations	-	-	2,326	1,929	2,326	1,929
Sewer operations	-	-	2,492	2,124	2,492	2,124
Solid waste operations	-	-	436	408	436	408
Total expenses	38,955	41,346	5,254	4,461	44,209	45,807
Change in net position before transfers	2,882	773	614	1,179	3,907	1,952
Transfers in (out)	-	-	-	-	-	-
Change in net position	2,882	773	614	1,179	3,907	1,952
Net position, beginning as restated	(6,399)	(7,222)	15,357	14,178	8,958	6,956
Net position, end of year	\$ (3,517)	\$ (6,449)	\$ 15,971	\$ 15,357	\$ 12,865	\$ 8,908

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 \$12,453,923, a change of \$3,496,864 from the prior year, as restated.

The largest portion of the City's net position, \$43,203,414 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, \$953,456 represents resources that are subject to external restrictions on how they may be used. The remaining balance of (\$31,702,947) 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.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$2,882,550. Key elements of this change are as follows:

	Governmental Activities
General fund operating results, as disclosed in Exhibit D	\$ 430,623
Non-major funds operating results	1,272,697
Other GAAP accruals, see Exhibit D-1 in the financial statements	1,179,230
Total	<u>\$ 2,882,550</u>

Business-Type Activities. Business-type activities for the year resulted in a change in net position of \$614,314. Key elements of this change are as follows:

	Business-Type Activities
Water Fund	\$ 234,441
Sewer Fund	342,181
Solid Waste Fund	37,692
Total	<u>\$ 614,314</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 \$8,320,925, a change of \$1,703,320 in comparison with the prior year. Key elements of this change are as follows:

	Governmental Funds
General fund operating results, as disclosed below	\$ 430,623
Non-major funds operating results	1,272,697
Total	<u>\$ 1,703,320</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 \$4,378,580 while total fund balance was \$5,392,157. 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 \$430,623 during the current fiscal year. Key factors in this change are as follows:

	General Fund
Revenues:	
Actual revenues in excess of budgeted amounts	\$ 950,223
Budgetary transfers in	(16,644)
Property tax collections exceeding (less than) net tax levy	(154,634)
Capital Lease	410,821
Expenditures:	
Actual expenditures less than appropriated amounts	585,873
Budgetary transfers out	103,598
Prior year encumbrances under (over) current year	(122,423)
Capital Lease	(410,821)
Use of fund balance as a funding source	(800,000)
Non-budgetary:	
Capital Reserve Fund (below)	9,424
Landfill:	
Fund 02, Superfund Landfill Trust; Net Operating Results	(29,492)
Transfer; Genral Fund to Fund 02, Superfund Landfill Monitoring	(75,598)
Other transfers in	3,134
Other transfers out	(22,838)
Total	\$ 430,623

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 \$5,714,512, a change of \$393,545 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

There were no changes from the original budget adopted by the City Council and the final budget as shown in the Budget and Actual in Schedule 1 of the financial statements.

	<u>FY2018-2019</u>	<u>FY2017-2018</u>
Original budget adopted by the City Council, Ordinance 15-18, April 16, 2018	\$ 41,525,350	\$ 41,149,475
Supplemental appropriation, Ordinance 12-18, June 4, 2018		412,000
Total Budget	<u>\$ 41,525,350</u>	<u>\$ 41,561,475</u>
Dollar Change	\$ (36,125)	
Percentage Change	-0.09%	

The overall budget decrease by (\$36,125) from the prior fiscal year to current fiscal year; a 0.09% 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 \$67,912,135 (net of accumulated depreciation), a change of (\$850,727) 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 \$24,722,623, 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 2019 continued the revitalization and growth of the Hilltop City. Large scale housing development and a 144 unit apartment complex continue the strong residential growth in the City. A recent city-wide revaluation reflected increases in the residential housing market of approximately 25% on average. Commercial development is thriving along Route 108, referred to as the "Medical Mile", and within the City's business district.

The City is moving forward with a large upgrade to the Wastewater Treatment Facility that will accommodate additional future growth, is investigating the viability of an underused wellfield to strengthen the ability to provide potable water, and continues general infrastructure improvements of streets and utilities.

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, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 20,158,633		\$ 20,158,633
Investments	6,254,296		6,254,296
Taxes receivable, net	1,105,213		1,105,213
Accounts receivable, net	143,085	\$ 888,517	1,031,602
Remediation recovery receivable	82,962		82,962
Due from other governments	711,284	122,387	833,671
Internal balances	(5,929,754)	5,929,754	-
Prepaid expenses	34,597	9,018	43,615
Inventory		110,715	110,715
Total Current Assets	<u>22,560,316</u>	<u>7,060,391</u>	<u>29,620,707</u>
Noncurrent Assets:			
Remediation recovery receivable	3,009,816		3,009,816
Due from other governments		734,322	734,322
Capital assets:			
Non-depreciable capital assets	3,336,705	1,422,709	4,759,414
Depreciable capital assets, net	45,453,195	17,699,526	63,152,721
Total Noncurrent Assets	<u>51,799,716</u>	<u>19,856,557</u>	<u>71,656,273</u>
Total Assets	<u>74,360,032</u>	<u>26,916,948</u>	<u>101,276,980</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to OPEB	352,563	14,582	367,145
Deferred outflows related to pension	5,396,274	143,037	5,539,311
Total Deferred Outflows of Resources	<u>5,748,837</u>	<u>157,619</u>	<u>5,906,456</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	1,656,737	324,721	1,981,458
Accrued expenses	463,391	99,654	563,045
Retainage payable	182,849	26,027	208,876
Due to other governments	5,283		5,283
Unearned food service revenue	12,592		12,592
Current portion of bonds payable	1,832,255	977,279	2,809,534
Current portion of capital leases payable	266,483		266,483
Current portion of pollution remediation obligation	167,600		167,600
Total Current Liabilities	<u>4,587,190</u>	<u>1,427,681</u>	<u>6,014,871</u>
Noncurrent Liabilities:			
Bonds payable	14,198,833	7,714,256	21,913,089
Capital leases payable	551,942	-	551,942
Compensated absences payable	1,602,927	119,689	1,722,616
OPEB liability	9,507,796	527,487	10,035,283
Net pension liability	29,318,422	792,775	30,111,197
Pollution remediation obligation	6,080,436		6,080,436
Total Noncurrent Liabilities	<u>61,260,356</u>	<u>9,302,359</u>	<u>70,562,715</u>
Total Liabilities	<u>65,847,546</u>	<u>10,730,040</u>	<u>76,577,586</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes collected in advance	11,225,863		11,225,863
Deferred inflows related to OPEB	4,820,040	304,623	5,124,663
Deferred inflows related to pension	1,732,530	68,871	1,801,401
Total Deferred Inflows of Resources	<u>17,778,433</u>	<u>373,494</u>	<u>18,151,927</u>
NET POSITION			
Net investment in capital assets	32,946,893	10,256,521	43,203,414
Restricted	953,456		953,456
Unrestricted (Deficit)	(37,117,459)	5,714,512	(31,702,947)
Total Net Position	<u>\$ (3,517,110)</u>	<u>\$ 15,971,033</u>	<u>\$ 12,453,923</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, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Activities	Business-type Activities	
Governmental Activities:							
General government	\$ 1,902,985	\$ 18,081	\$ 11,617		\$ (1,873,287)		\$ (1,873,287)
Public safety	6,227,334	138,549	116,947		(5,971,838)		(5,971,838)
Highways and streets	2,664,449		272,117	\$ 96,591	(2,295,741)		(2,295,741)
Sanitation	253,806		27,939		(225,867)		(225,867)
Health and welfare	290,900				(290,900)		(290,900)
Culture and recreation	483,636	92,589			(391,047)		(391,047)
Conservation	837				(837)		(837)
Economic development	13,287				(13,287)		(13,287)
Education	25,819,033	421,020	9,839,413	654,048	(14,904,552)		(14,904,552)
Food service	738,444	232,959	463,091		(42,394)		(42,394)
Debt service	560,139				(560,139)		(560,139)
Total governmental activities	<u>38,954,850</u>	<u>903,198</u>	<u>10,731,124</u>	<u>750,639</u>	<u>(26,569,889)</u>	<u>\$ -</u>	<u>(26,569,889)</u>
Business-type activities:							
Water	2,325,872	2,511,628				185,756	185,756
Sewer	2,192,399	2,790,803		34,151		332,555	332,555
Solid waste	435,648	473,340				37,692	37,692
Total business-type activities	<u>5,253,919</u>	<u>5,775,771</u>	<u>-</u>	<u>34,151</u>	<u>-</u>	<u>556,003</u>	<u>556,003</u>
Total primary government	<u>\$ 44,208,769</u>	<u>\$ 6,678,969</u>	<u>\$ 10,731,124</u>	<u>\$ 784,790</u>	<u>(26,569,889)</u>	<u>556,003</u>	<u>(26,013,886)</u>
General revenues:							
Property and other taxes					26,076,562		26,076,562
Licenses and permits					2,303,697		2,303,697
Grants and contributions:							
Rooms and meals tax distribution					602,123		602,123
State railroad tax					924		924
Interest and investment earnings					353,041		353,041
Miscellaneous					527,050	58,311	585,361
Special item - Change in pollution remediation assumptions					(410,958)		(410,958)
Total general revenues and special item					<u>29,452,439</u>	<u>58,311</u>	<u>29,510,750</u>
Change in net position					2,882,550	614,314	3,496,864
Net position - beginning, as restated					<u>(6,399,660)</u>	<u>15,356,719</u>	<u>8,957,059</u>
Net position - ending					<u>\$ (3,517,110)</u>	<u>\$ 15,971,033</u>	<u>\$ 12,453,923</u>

See accompanying notes to the basic financial statements

EXHIBIT C
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2019

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 20,158,518	\$ 115	\$ 20,158,633
Investments	3,864,776	2,389,520	6,254,296
Taxes receivable, net	1,088,584	16,629	1,105,213
Accounts receivable	98,955	40,530	139,485
Due from other governments	9,820	701,464	711,284
Due from other funds	600,252	864,414	1,464,666
Prepaid expenses	85,461		85,461
Total Assets	<u>\$ 25,906,366</u>	<u>4,012,672</u>	<u>\$ 29,919,038</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 25,906,366</u>	<u>\$ 4,012,672</u>	<u>\$ 29,919,038</u>
LIABILITIES			
Accounts payable	\$ 702,649	\$ 411,464	\$ 1,114,113
Accrued expenses	279,383	537	279,920
Retainage payable	120,190	62,659	182,849
Due to other governments	5,283		5,283
Due to other funds	7,336,792	596,652	7,933,444
Unearned food service revenue		12,592	12,592
Total Liabilities	<u>8,444,297</u>	<u>1,083,904</u>	<u>9,528,201</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes collected in advance	11,225,863		11,225,863
Uncollected property taxes	844,049		844,049
Total Deferred Inflows of Resources	<u>12,069,912</u>	<u>-</u>	<u>12,069,912</u>
FUND BALANCES			
Nonspendable	85,461	187,298	272,759
Restricted	46,822	1,908,691	1,955,513
Committed	750,867	832,779	1,583,646
Assigned	130,427		130,427
Unassigned	4,378,580		4,378,580
Total Fund Balances	<u>5,392,157</u>	<u>2,928,768</u>	<u>8,320,925</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 25,906,366</u>	<u>\$ 4,012,672</u>	<u>\$ 29,919,038</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, 2019

Total Fund Balances - Governmental Funds (Exhibit C)	\$ 8,320,925
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.	48,789,900
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	3,092,778
Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis	844,049
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	352,563
Deferred outflows of resources related to net pension liability	5,396,274
Deferred inflows of resources related to OPEB liability	(4,820,040)
Deferred inflows of resources related to net pension liability	(1,732,530)
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	(16,031,088)
Capital leases payable	(818,425)
Accrued interest on long-term obligations	(183,471)
Compensated absences payable	(1,602,927)
OPEB liability	(9,507,796)
Net pension liability	(29,318,422)
Estimated pollution remediation obligation	<u>(6,248,036)</u>
Net Position of Governmental Activities (Exhibit A)	<u>\$ (3,517,110)</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, 2019

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 25,903,661	\$ 18,267	\$ 25,921,928
Licenses and permits	2,238,655	65,042	2,303,697
Intergovernmental	9,714,172	2,370,638	12,084,810
Charges for services	481,752	421,446	903,198
Interest and investment income	305,977	47,064	353,041
Miscellaneous	328,056	198,994	527,050
Total Revenues	<u>38,972,273</u>	<u>3,121,451</u>	<u>42,093,724</u>
Expenditures:			
Current operations:			
General government	1,749,025	61,932	1,810,957
Public safety	6,078,560	132,141	6,210,701
Highways and streets	2,767,208	53,003	2,820,211
Sanitation	330,028	28,885	358,913
Health and welfare	292,535		292,535
Culture and recreation	439,536	34,326	473,862
Conservation		837	837
Economic development	13,235	52	13,287
Education	23,811,091	1,899,302	25,710,393
Food service		738,444	738,444
Capital outlay	491,227	559,536	1,050,763
Debt service:			
Principal retirement	2,283,028		2,283,028
Interest and fiscal charges	677,294		677,294
Total Expenditures	<u>38,932,767</u>	<u>3,508,458</u>	<u>42,441,225</u>
Excess revenues (under) expenditures	<u>39,506</u>	<u>(387,007)</u>	<u>(347,501)</u>
Other financing sources (uses):			
Proceeds from bond issuance		1,483,500	1,483,500
Bond premium		156,500	156,500
Proceeds from capital lease	410,821		410,821
Transfers in	3,134	22,838	25,972
Transfers out	(22,838)	(3,134)	(25,972)
Total other financing sources (uses)	<u>391,117</u>	<u>1,659,704</u>	<u>2,050,821</u>
Net change in fund balances	430,623	1,272,697	1,703,320
Fund balances at beginning of year, as restated	<u>4,961,534</u>	<u>1,656,071</u>	<u>6,617,605</u>
Fund balances at end of year	<u>\$ 5,392,157</u>	<u>\$ 2,928,768</u>	<u>\$ 8,320,925</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, 2019

Net Change in Fund Balances - Governmental Funds (Exhibit D)	\$ 1,703,320
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.	(175,134)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	154,634
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.	1,979,763
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 bond issuances are other financing sources in the funds, but bond issuances increase long-term liabilities in the statement of net position.	(1,483,500)
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.	(410,821)
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.	(39,500)
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.	(1,871)
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.	235,875
Pollution remediation obligations and the related receivables are measured using assumptions of probability weighted scenarios. As assumptions are updated, the liability and related receivables increase or decrease. This is the amount of the net increase in the liability and related receivables due to changes in assumptions.	(410,958)
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	1,279,899
Net changes in pension	<u>(254,448)</u>
Change in Net Position of Governmental Activities (Exhibit B)	<u>\$ 2,882,550</u>

See accompanying notes to the basic financial statements

EXHIBIT E
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
June 30, 2019

	Business-type Activities			
	Water Fund	Sewer Fund	Nonmajor Fund	Totals
ASSETS				
Current Assets:				
Accounts receivable, net	\$ 388,249	\$ 471,633	\$ 28,635	\$ 888,517
Due from other governments		122,387		122,387
Due from other funds	2,826,461	2,930,613	172,680	5,929,754
Prepaid expenses	4,509	4,509		9,018
Inventory	104,184		6,531	110,715
Total Current Assets	<u>3,323,403</u>	<u>3,529,142</u>	<u>207,846</u>	<u>7,060,391</u>
Noncurrent Assets:				
Due from other governments		734,322		734,322
Capital assets:				
Non-depreciable capital assets	196,032	1,226,677		1,422,709
Depreciable capital assets, net	<u>6,743,277</u>	<u>10,956,249</u>		<u>17,699,526</u>
Total Noncurrent Assets	<u>6,939,309</u>	<u>12,917,248</u>	<u>-</u>	<u>19,856,557</u>
Total Assets	<u>10,262,712</u>	<u>16,446,390</u>	<u>207,846</u>	<u>26,916,948</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to OPEB	7,639	6,943		14,582
Deferred outflows related to pension	<u>74,934</u>	<u>68,103</u>		<u>143,037</u>
Total Deferred Outflows of Resources	<u>82,573</u>	<u>75,046</u>	<u>-</u>	<u>157,619</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	65,188	229,121	30,412	324,721
Accrued expenses	78,250	21,404		99,654
Retainage payable	14,663	11,364		26,027
Current portion of bonds payable	<u>408,975</u>	<u>568,304</u>		<u>977,279</u>
Total Current Liabilities	<u>567,076</u>	<u>830,193</u>	<u>30,412</u>	<u>1,427,681</u>
Noncurrent Liabilities:				
Bonds payable	4,039,837	3,674,419		7,714,256
State of New Hampshire revolving loan		148,152		148,152
Compensated absences payable	60,048	59,641		119,689
OPEB liability	<u>331,900</u>	<u>195,587</u>		<u>527,487</u>
Net pension liability	<u>415,316</u>	<u>377,459</u>		<u>792,775</u>
Total Noncurrent Liabilities	<u>4,847,101</u>	<u>4,455,258</u>	<u>-</u>	<u>9,302,359</u>
Total Liabilities	<u>5,414,177</u>	<u>5,285,451</u>	<u>30,412</u>	<u>10,730,040</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to OPEB	197,801	106,822		304,623
Deferred inflows related to pension	<u>36,080</u>	<u>32,791</u>		<u>68,871</u>
Total Deferred Inflows of Resources	<u>233,881</u>	<u>139,613</u>	<u>-</u>	<u>373,494</u>
NET POSITION				
Net investment in capital assets	2,475,834	7,780,687		10,256,521
Unrestricted	<u>2,221,393</u>	<u>3,315,685</u>	<u>177,434</u>	<u>5,714,512</u>
Total Net Position	<u>\$ 4,697,227</u>	<u>\$ 11,096,372</u>	<u>\$ 177,434</u>	<u>\$ 15,971,033</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, 2019

	Business-type Activities			
	Water	Sewer	Nonmajor	Totals
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	
Operating revenues:				
Charges for services	\$ 2,511,628	\$ 2,790,803	\$ 473,340	\$ 5,775,771
Miscellaneous	48,685	9,626		58,311
Total operating revenues	<u>2,560,313</u>	<u>2,800,429</u>	<u>473,340</u>	<u>5,834,082</u>
Operating expenses:				
Personnel services	964,950	824,331		1,789,281
Contractual services	101,219	222,291	378,630	702,140
Repairs and maintenance	105,663	124,513		230,176
Administration	75,127	70,991	500	146,618
Materials and supplies	222,748	152,984	56,518	432,250
Utilities	184,649	247,649		432,298
Depreciation	553,727	718,902		1,272,629
Miscellaneous	132	2,000		2,132
Total operating expenses	<u>2,208,215</u>	<u>2,363,661</u>	<u>435,648</u>	<u>5,007,524</u>
Operating income	<u>352,098</u>	<u>436,768</u>	<u>37,692</u>	<u>826,558</u>
Non-operating (expenses):				
Interest expense	<u>(117,657)</u>	<u>(128,738)</u>		<u>(246,395)</u>
Total non-operating (expenses)	<u>(117,657)</u>	<u>(128,738)</u>	<u>-</u>	<u>(246,395)</u>
Income before capital contributions	234,441	308,030	37,692	580,163
Capital contributions		<u>34,151</u>		<u>34,151</u>
Change in net position	234,441	342,181	37,692	614,314
Net position - beginning, as restated	<u>4,462,786</u>	<u>10,754,191</u>	<u>139,742</u>	<u>15,356,719</u>
Net position - ending	<u>\$ 4,697,227</u>	<u>\$ 11,096,372</u>	<u>\$ 177,434</u>	<u>\$ 15,971,033</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, 2019

	Business-type Activities			
	Water Fund	Sewer Fund	Nonmajor Fund	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 2,650,694	\$ 2,826,416	\$ 481,420	\$ 5,958,530
Cash paid to suppliers	(1,011,089)	(929,189)	(431,365)	(2,371,643)
Cash paid to employees	(380,707)	(347,322)		(728,029)
Net cash provided by operating activities	<u>1,258,898</u>	<u>1,549,905</u>	<u>50,055</u>	<u>2,858,858</u>
Cash flows from capital financing activities:				
Purchases of capital assets	(50,139)	(562,463)		(612,602)
Capital contributions		156,539		156,539
Proceeds received from State revolving loans		148,152		148,152
Principal paid on long-term debt	(398,975)	(572,563)		(971,538)
Principal paid on capital leases	(13,711)	(13,711)		(27,422)
Interest paid on long-term debt	(176,348)	(149,499)		(325,847)
Net cash (used) for capital financing activities	<u>(639,173)</u>	<u>(993,545)</u>	<u>-</u>	<u>(1,632,718)</u>
Net increase in cash and cash equivalents	619,725	556,360	50,055	1,226,140
Cash and cash equivalents at beginning of year	<u>2,206,736</u>	<u>2,374,253</u>	<u>122,625</u>	<u>4,703,614</u>
Cash and cash equivalents at end of year	<u>\$ 2,826,461</u>	<u>\$ 2,930,613</u>	<u>\$ 172,680</u>	<u>\$ 5,929,754</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 352,098	\$ 436,768	\$ 37,692	\$ 826,558
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	553,727	718,902		1,272,629
Change in deferred outflows related to OPEB	122,986	81,676		
Change in deferred outflows related to pension	12,842	7,997		20,839
Change in deferred inflows related to OPEB	108,183	41,130		
Change in deferred inflows related to pension	7,013	7,591		14,604
Changes in assets and liabilities:				
Accounts receivable, net	90,381	25,987	8,080	124,448
Prepaid expenses	334	336		670
Inventory	3,495		414	3,909
Accounts payable	(9,781)	191,545	3,869	185,633
Accrued expenses	668	1,167		1,835
Compensated absences payable	251	(5,177)		(4,926)
OPEB liability	34,355	39,901		74,256
Net pension liability	(17,654)	2,082		(15,572)
Net cash provided by operating activities	<u>\$ 1,258,898</u>	<u>\$ 1,549,905</u>	<u>\$ 50,055</u>	<u>\$ 2,504,883</u>
Non-cash investing, capital and financing activities:				
Amortization on bond premiums	<u>\$ 52,018</u>	<u>\$ 19,563</u>	<u>\$ -</u>	<u>\$ 71,581</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, 2019

	Private- Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents		\$ 353,147
Investments	\$ 190,439	
Due from other funds		542,624
Total Assets	<u>190,439</u>	<u>\$ 895,771</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows of Resources	<u>-</u>	
LIABILITIES		
Accounts payable		\$ 16
Due to student groups		108,859
Due to other funds	\$ 3,600	
Deposits		786,896
Total Liabilities	<u>3,600</u>	<u>\$ 895,771</u>
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources	<u>-</u>	
NET POSITION		
Held in trust	<u>186,839</u>	
Total Net Position	<u>\$ 186,839</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, 2019

	<u>Private- Purpose Trust Funds</u>
ADDITIONS:	
Contributions:	
Private donations	\$ -
Total Contributions	<u>-</u>
Investment earnings:	
Interest	6,178
Realized gain on investments	1,142
Net increase in the fair value of investments	<u>3,810</u>
Total Investment Earnings	<u>11,130</u>
Total Additions	<u>11,130</u>
DEDUCTIONS:	
Benefits	<u>13,700</u>
Total Deductions	<u>13,700</u>
 Change in net position	 (2,570)
 Net position - beginning	 <u>189,409</u>
Net position - ending	<u>\$ 186,839</u>

See accompanying notes to the basic financial statements

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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, 2019

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, 2019

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, 2019

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, 2019, the City applied \$800,000 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, 2019

	Due from <u>other funds</u>
Proprietary Funds:	
Water Fund	\$ 2,826,461
Sewer Fund	2,930,613
Nonmajor Fund	<u>172,680</u>
	<u>\$ 5,929,754</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, 2019 are recorded as receivables net of reserves for estimated uncollectibles of \$20,200 and \$21,400 in the Water Fund and Sewer Fund, respectively.

Taxes Receivable

Taxes levied during the current fiscal year and prior and uncollected at June 30, 2019 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.

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, 2019

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 Premiums

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

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, 2019

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, 2019

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, 2019

NOTE 2—DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2019 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	\$ 20,158,633
Investments	6,254,296
Statement of fiduciary net position:	
Cash and cash equivalents	353,147
Investments	<u>190,439</u>
Total deposits and investments	<u>\$ 26,956,515</u>

Deposits and investments as of June 30, 2019 consist of the following:

Cash on hand	\$ 219
Deposits with financial institutions	20,511,561
Investments	<u>6,444,735</u>
Total deposits and investments	<u>\$ 26,956,515</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:

Investment Type	Fair Value	Remaining Maturity (In Years)		
		0-1 Years	1-5 Years	> 5 Years
Bond mutual funds	<u>\$ 693,097</u>	<u>\$ -</u>	<u>\$ 478,352</u>	<u>\$ 214,745</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

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	\$ 5,500,751	\$ 5,500,751	
Bond mutual funds	693,097		\$ 693,097
Equity mutual funds	248,803		248,803
	<u>\$ 6,442,651</u>	<u>\$ 5,500,751</u>	<u>\$ 941,900</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, \$17,505,350 was collateralized by securities held by the bank in the bank's name. As of June 30, 2019, 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	\$ 693,097
Equity mutual funds	248,803
Money market funds	2,084
	<u>\$ 943,984</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, 2019

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.

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, 2019, 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</u> <u>Inputs</u>	<u>Level 2</u> <u>Inputs</u>	<u>Level 3</u> <u>Inputs</u>	
Bond mutual funds	\$ 693,097			\$ 693,097
Equity mutual funds	248,803			248,803
	<u>\$ 941,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 941,900</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, 2019

	Balance 7/1/2018	Additions	Reductions	Balance 6/30/2019
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	67,028	\$ 642,698		709,726
Total capital assets not being depreciated	2,694,007	642,698	\$ -	3,336,705
Other capital assets:				
Infrastructure	18,627,600	949,416		19,577,016
Buildings and improvements	52,528,808	39,800		52,568,608
Vehicles and equipment	7,474,983	516,773		7,991,756
Total other capital assets at historical cost	78,631,391	1,505,989	-	80,137,380
Less accumulated depreciation for:				
Infrastructure	(4,299,682)	(737,514)		(5,037,196)
Buildings and improvements	(22,427,769)	(1,134,812)		(23,562,581)
Vehicles and equipment	(5,632,913)	(451,495)		(6,084,408)
Total accumulated depreciation	(32,360,364)	(2,323,821)	-	(34,684,185)
Total other capital assets, net	46,271,027	(817,832)	-	45,453,195
Total capital assets, net	\$ 48,965,034	\$ (175,134)	\$ -	\$ 48,789,900

Depreciation was charged to governmental functions as follows:

General government	\$ 105,041
Public safety	278,581
Highways and streets	946,961
Culture and recreation	25,006
Education	968,232
Total governmental activities depreciation expense	<u>\$ 2,323,821</u>

The balance of the assets acquired through capital leases as of June 30, 2019, is as follows:

	Vehicles and Equipment
Cost	\$ 763,588
Less: accumulated depreciation	<u>(233,683)</u>
	<u>\$ 529,905</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, 2019

	Balance 7/1/2018	Additions	Reductions	Balance 6/30/2019
Business-type activities:				
Capital asset not depreciated:				
Land	\$ 500,895			\$ 500,895
Software	103,044			103,044
Construction in process	297,160	\$ 521,610		818,770
Total capital assets not being depreciated	901,099	521,610	\$ -	1,422,709
Other capital assets:				
Infrastructure	14,260,788	23,232		14,284,020
Buildings and improvements	26,860,010	25,287		26,885,297
Vehicles and equipment	1,145,449	26,907		1,172,356
Total other capital assets at historical cost	42,266,247	75,426	-	42,341,673
Less accumulated depreciation for:				
Infrastructure	(7,192,869)	(351,551)		(7,544,420)
Buildings and improvements	(15,355,793)	(838,509)		(16,194,302)
Vehicles and equipment	(820,856)	(82,569)		(903,425)
Total accumulated depreciation	(23,369,518)	(1,272,629)	-	(24,642,147)
Total other capital assets, net	18,896,729	(1,197,203)	-	17,699,526
Total capital assets, net	\$ 19,797,828	\$ (675,593)	\$ -	\$ 19,122,235

Depreciation was charged to proprietary funds as follows:

Water fund	\$ 553,727
Sewer fund	718,902
Total Business-type activities depreciation expense	<u>\$ 1,272,629</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, 2019 are as follows:

	Balance 7/1/2018	Additions	Reductions	Balance 6/30/2019	Due Within One Year
Governmental activities:					
Bonds payable	\$ 15,247,186	\$ 1,483,500	\$(1,907,491)	\$ 14,823,195	\$ 1,832,255
Unamortized bond premium	1,168,393	156,500	(117,000)	1,207,893	
Total Bonds payable	16,415,579	1,640,000	(2,024,491)	16,031,088	1,832,255
Capital leases payable	785,167	410,821	(377,563)	818,425	266,483
Compensated absences	1,733,695	152,530	(283,298)	1,602,927	-
Total governmental activities	<u>\$ 18,934,441</u>	<u>\$ 2,203,351</u>	<u>\$(2,685,352)</u>	<u>\$ 18,452,440</u>	<u>\$ 2,098,738</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

Business-type activities:

Bonds payable	\$ 9,352,651		\$ (971,538)	\$ 8,381,113	\$ 977,279
Unamortized bond premium	<u>382,003</u>		<u>(71,581)</u>	<u>310,422</u>	
Total Bonds payable	9,734,654	\$ -	(1,043,119)	8,691,535	977,279
State of New Hampshire revolving loan		148,152		148,152	
Capital leases payable	27,422		(27,422)	-	
Compensated absences	<u>124,615</u>	<u>9,061</u>	<u>(13,987)</u>	<u>119,689</u>	
Total business-type activities	<u>\$ 9,886,691</u>	<u>\$ 157,213</u>	<u>\$(1,084,528)</u>	<u>\$ 8,959,376</u>	<u>\$ 977,279</u>

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, 2019 are comprised of the following individual issues:

	Interest <u>Rate</u>	Final Maturity <u>Date</u>	Balance at <u>6/30/2019</u>
1999 High Street Corridor bonds	5.20%	August 2019	\$ 65,000
2000 New City Hall bonds	5.08%	January 2021	140,000
2006 Police Station bonds	4.43%	August 2021	675,000
1999 Kindergarten bonds	5.20%	August 2019	15,000
2009 School bonds	3.73%	January 2030	8,384,070
2014 School HVAC bonds	3.13%	August 2028	410,250
2014 Downtown Improvement bonds	3.13%	August 2028	1,162,375
2015 Downtown Improvement bonds	2.50%	August 2029	323,400
2015 High Street Improvement bonds	2.50%	August 2024	513,000
2015 School HVAC bonds	2.50%	August 2029	336,600
2015 School HVAC bonds	2.50%	August 2024	60,000
2016 School CTC bonds	2.16%	August 2031	1,255,000
2019 School bonds	2.70%	February 2034	1,483,500
Totals			14,823,195
		Add: Unamortized Bond Premium	<u>1,207,893</u>
		Total Bonds Payable	<u>\$ 16,031,088</u>

Debt service requirements to retire general obligation bonds outstanding at June 30, 2019 are as follows:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,832,255	\$ 722,684	\$ 2,554,939
2021	1,713,397	721,151	2,434,548
2022	1,610,043	725,760	2,335,803
2023	1,338,477	727,773	2,066,250
2024	1,305,020	740,820	2,045,840
2025-2029	5,606,508	3,916,150	9,522,658
2030-2034	1,417,495	914,534	2,332,029
Total	14,823,195	8,468,872	23,292,067
Add: <i>Unamortized Bond Premium</i>	1,207,893		1,207,893
Total Bonds Payable	<u>\$ 16,031,088</u>	<u>\$ 8,468,872</u>	<u>\$ 24,499,960</u>

Business-type Activities

Bonds payable at June 30, 2019 are comprised of the following individual issues:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at 6/30/2019</u>
<u>Water Fund:</u>			
Water treatment plant upgrade bonds	4.44%	January 2028	\$ 810,000
Water treatment plant bonds	1.92%	February 2028	2,560,000
Downtown Improvement bonds	3.13%	August 2028	790,415
High Street Improvement bonds	2.50%	August 2024	57,000
			<u>4,217,415</u>
Add: <i>Unamortized Bond Premium</i>			231,397
			<u>4,448,812</u>
<u>Sewer Fund:</u>			
Wastewater refunding bonds	2.56%	January 2026	3,465,000
Wastewater treatment facility bonds	2.95%	January 2029	326,738
Downtown Improvement bonds	3.13%	August 2028	371,960
			<u>4,163,698</u>
Add: <i>Unamortized Bond Premium</i>			79,025
			<u>4,242,723</u>
Total Bonds Payable			<u>\$ 8,691,535</u>

Debt service requirements to retire general obligation bonds for business-type activities at June 30, 2019 are as follows:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

Year Ending June 30,	Principal	Interest	Total
2020	\$ 977,279	\$ 245,292	\$ 1,222,571
2021	983,044	267,899	1,250,943
2022	988,830	231,950	1,220,780
2023	999,641	195,726	1,195,367
2024	1,005,475	159,080	1,164,555
2025-2029	3,396,408	275,112	3,671,520
2030	30,436	898	31,334
Total	8,381,113	1,375,957	9,757,070
Add: Unamortized Bond Premium	310,422		310,422
Total Bonds Payable	<u>\$ 8,691,535</u>	<u>\$ 1,375,957</u>	<u>\$ 10,067,492</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, 2019, the reimbursement was \$156,539 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, 2019:

	Interest Rate	Final Maturity Date	Balance at 6/30/2019
Vehicles	2.26%	July 2019	\$ 122,789
Vehicles	3.47%	May 2023	284,815
Vehicles	3.84%	September 2023	410,821
			<u>\$ 818,425</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
2020	\$ 266,483	\$ 28,586	\$ 295,069
2021	148,962	20,391	169,353
2022	154,424	14,929	169,353
2023	160,086	9,267	169,353
2024	88,470	3,397	91,867
Total	<u>\$ 818,425</u>	<u>\$ 76,570</u>	<u>\$ 894,995</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

State of New Hampshire Revolving Loan

The City has drawn \$148,152 of \$12,440,000 in funds under the State of New Hampshire Water Pollution Control Revolving Loan Fund Program for the wastewater treatment facility upgrade project. Payments on the State of New Hampshire revolving loan balance are not scheduled to commence until the first anniversary of the scheduled completion date of the project or the date of substantial completion, whichever is earliest. Interest is accrued at 1% during the construction period of the project and is to be paid upon completion of the project within the following year.

As authorized by the Water Pollution Control Revolving Fund Program, the City shall be provided federal financial assistance, whereby a portion of the principal sum will be forgiven. The principal forgiveness will be applied at the time of the initial loan repayment.

NOTE 5—OTHER POSTEMPLOYMENT 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	\$ 367,145	\$ 2,722,472	\$ 94,717	\$ 216,877
Single Employer Plan	-	7,312,811	5,029,946	(481,238)
Total	<u>\$ 367,145</u>	<u>\$ 10,035,283</u>	<u>\$ 5,124,663</u>	<u>\$ (264,361)</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 \$4,757,518.

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.

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.

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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

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, 2019. Contributions to the OPEB plan for the City were \$268,201 for the year ended June 30, 2019. 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, 2019, the City reported a liability of \$2,722,472 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, 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, 2017. 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, 2018, the City's proportion was approximately 0.5946 percent, which was a decrease of 0.0032 percentage points from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized OPEB expense of \$216,877. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 15,980	
Net difference between projected and actual earnings on OPEB plan investments		\$ 8,650
Changes in proportion and differences between City contributions and proportionate share of contributions	82,964	86,067
City contributions subsequent to the measurement date	<u>268,201</u>	
Totals	<u>\$ 367,145</u>	<u>\$ 94,717</u>

The City reported \$268,201 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, 2019. 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>	
2019	\$ 10,178
2020	(2,699)
2021	(2,699)
2022	(553)
	<u>\$ 4,227</u>

Actuarial Assumptions

The total OPEB liability was determined by a roll forward of the actuarial valuation as of June 30, 2017, 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.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return</u>
Fixed income	25%	(0.25)-1.80%
Domestic equity	30%	4.25-4.50%
International equity	20%	4.50-6.00%
Real estate	10%	3.25%
Private equity	5%	6.25%
Private debt	5%	4.25%
Opportunistic	5%	2.15%
Total	<u>100%</u>	

The discount rate used to measure the collective total OPEB liability as of June 30, 2018 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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net OPEB Liability	\$ 2,833,561	\$ 2,722,472	\$ 2,411,292

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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

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 July 1, 2017, 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	41
	<hr/> 207 <hr/>

Total OPEB Liability

The City's total OPEB liability of \$7,346,405 was measured as of June 30, 2018 and was determined by a roll forward of the 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.

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-2018.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2018	\$ 7,346,405
Changes for the year:	
Service Cost	273,431
Interest	233,514
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	(221,807)
Benefit payments	(318,732)
Net changes	(33,594)
Balance at June 30, 2019	<u>\$ 7,312,811</u>

Changes of assumptions and other inputs reflect a change in the discount rate of 3.13% at June 30, 2017 to 3.87% at June 30, 2018. Additionally, the health cost trend rates, mortality improvement scale, and salary increase rate were updated from the prior measurement.

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 (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Total OPEB Liability	\$ 8,156,744	\$ 7,312,811	\$ 6,595,882

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:

	1% Decrease (6.35% decreasing to 3.50%)	Healthcare Cost Trend Rates (7.35% decreasing to 4.50%)	1% Increase (8.35% decreasing to 5.50%)
Total OPEB Liability	\$ 6,623,930	\$ 7,312,811	\$ 8,117,704

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

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

For the year ended June 30, 2019, the City recognized negative OPEB expense of (\$481,238). At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		\$ 2,376,057
Changes of assumptions		<u>2,653,889</u>
Totals	<u>\$ -</u>	<u>\$ 5,029,946</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>	
2020	\$ (988,183)
2021	(988,182)
2022	(914,247)
2023	(914,247)
2024	(914,247)
Thereafter	<u>(310,840)</u>
	<u>\$ (5,029,946)</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.

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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

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:

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

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

Funding Policy

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, 2019 were \$2,665,744.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

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

At June 30, 2019, the City reported a liability of \$30,111,197 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017. 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, 2018, the City's proportion was approximately 0.6253 percent, which was an increase of 0.0014 percentage points from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized pension expense of \$2,940,532. At June 30, 2019, 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	\$ 240,341	\$ 243,812
Net difference between projected and actual earnings on pension plan investments		696,800
Changes of assumptions	2,083,843	
Changes in proportion and differences between City contributions and proportionate share of contributions	549,383	860,789
City contributions subsequent to the measurement date	<u>2,665,744</u>	
Totals	<u>\$ 5,539,311</u>	<u>\$ 1,801,401</u>

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 \$3,737,910. The City reported \$2,665,744 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, 2019. 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>	
2019	\$ 1,134,786
2020	793,644
2021	(751,676)
2022	<u>(104,588)</u>
	<u>\$ 1,072,166</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

Actuarial Assumptions

The total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2017, 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, with credibility adjustments, adjusted for fully generational mortality improvements using Scale MP-2015, based on the last experience study.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return</u>
Fixed income	25%	(0.25)-1.80%
Domestic equity	30%	4.25-4.50%
International equity	20%	4.50-6.00%
Real estate	10%	3.25%
Private equity	5%	6.25%
Private debt	5%	4.25%
Opportunistic	5%	2.15%
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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
City's proportionate share of the net pension liability	\$ 40,063,195	\$ 30,111,197	\$ 21,771,119

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 place, flow-through treatment of contaminated ground water at 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, 2019, the City estimates the pollution remediation obligation to be \$6,248,036 and estimated recoveries from the potentially responsible party of \$3,092,778. The estimated obligation was calculated using the expected cash flow technique measured at current value. In making this estimate, the City assumed an 80% likelihood current monitoring procedures would be adequate and 20% 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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

NOTE 8—RESTRICTED NET POSITION

Net position is restricted for specific purposes as follows:

	Governmental Activities
Permanent Funds - Principal	\$ 187,298
Permanent Funds - Income	19,453
City capital projects	10,605
School capital projects	4,673
SB 38 Highway block grant	195,014
Pollution remediation	46,822
Food service operations	64,574
Police forfeiture	96,787
Grants	328,230
	<u>\$ 953,456</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, 2019 are as follows:

	Due from			Totals
	General Fund	Nonmajor Governmental Funds	Private Purpose Trust Funds	
General Fund		\$ 596,652	\$ 3,600	\$ 600,252
Nonmajor Governmental Funds	\$ 864,414			864,414
Water Fund	2,826,461			2,826,461
Sewer Fund	2,930,613			2,930,613
Nonmajor Enterprise Fund	172,680			172,680
Custodial Funds	542,624			542,624
	<u>\$ 7,336,792</u>	<u>\$ 596,652</u>	<u>\$ 3,600</u>	<u>\$ 7,937,044</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, 2019 are as follows:

	Transfer from		
	General Fund	Nonmajor Governmental Funds	Totals
General Fund		\$ 3,134	\$ 3,134
Nonmajor Governmental Funds	\$ 22,838		22,838
	<u>\$ 22,838</u>	<u>\$ 3,134</u>	<u>\$ 25,972</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

NOTE 10—COMPONENTS OF FUND BALANCE

The components of the City's fund balance for its governmental funds at June 30, 2019, are as follows:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable for:			
Prepaid expenses	\$ 85,461		\$ 85,461
Permanent Funds - principal		\$ 187,298	187,298
Restricted for:			
Pollution remediation	46,822		46,822
Capital projects		1,204,633	1,204,633
Permanent Funds - income		19,453	19,453
SB 38 Highway block grant		195,014	195,014
Food service operations		64,574	64,574
Police forfeiture		96,787	96,787
Grants		328,230	328,230
Committed for:			
Capital Reserve	244,481		244,481
Encumbrances	506,386		506,386
Transportation improvement projects		238,157	238,157
Conservation		146,145	146,145
Cable Communications		288,837	288,837
School operations		47,984	47,984
Other trusts		69,378	69,378
City activities		42,278	42,278
Assigned for:			
Encumbrances	130,427		130,427
Unassigned:			
Unassigned - General operations	4,378,580		4,378,580
	<u>\$ 5,392,157</u>	<u>\$ 2,928,768</u>	<u>\$ 8,320,925</u>

NOTE 11—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$854,963,274 as of April 1, 2018) and are due in two installments on July 2, 2018 and December 5, 2018. Taxes paid after the due dates accrue interest at 8% 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 14% 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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

\$2,509,614 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, 2019, the City expended \$369,232 and \$210,336 for solid waste and recycling services, respectively, under the terms of the agreement.

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, 2019, 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, 2019.

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

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 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, 2019 it was determined funds previously classified as Fiduciary Funds should be classified as Governmental Funds.

Government-Wide Statements

The impact on net position of the Governmental Activities as of July 1, 2018 is as follows:

	Governmental Activities
Net Position, July 1, 2018 (as previously reported)	\$ (6,449,041)
Amount of restatement due to:	
Reclassification of fund type	49,381
Net Position, July 1, 2018 - as restated	<u>\$ (6,399,660)</u>

Governmental Funds

The impact on fund balance of the Nonmajor Governmental Funds as of July 1, 2018 is as follows:

	Nonmajor Governmental Funds
Fund balance - July 1, 2018 (as previously reported)	\$ 1,606,690
Amount of restatement due to:	
Reclassification of fund type	49,381
Fund balance - July 1, 2018, as restated	<u>\$ 1,656,071</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019

NOTE 16—SUBSEQUENT EVENTS

State of New Hampshire Revolving Loan Drawdowns

Subsequent to June 30, 2019, the City has received drawdowns of \$338,354 on the State of New Hampshire Water Pollution Control State Revolving Fund Program for wastewater treatment facility upgrades.

NOTE 17—IMPLEMENTATION OF FUTURE ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, which the City is required to implement in the fiscal year ending June 30, 2020. Management believes that this pronouncement will have a potentially significant impact on the City's financial statements, wherein certain funds currently reported as Fiduciary Funds will require classification as a Governmental Fund.

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, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 26,103,585	\$ 26,103,585	\$ 26,058,295	\$ (45,290)
Licenses and permits	1,800,625	1,800,625	2,238,655	438,030
Intergovernmental	9,536,112	9,536,112	9,714,172	178,060
Charges for services	547,475	547,475	575,756	28,281
Interest income	75,000	75,000	294,336	219,336
Miscellaneous	196,250	196,250	328,056	131,806
Total Revenues	<u>38,259,047</u>	<u>38,259,047</u>	<u>39,209,270</u>	<u>950,223</u>
Expenditures:				
Current operations:				
Elected leadership	146,986	146,986	133,265	13,721
City management	485,815	485,815	453,726	32,089
Finance and administration	1,203,308	1,203,308	1,163,390	39,918
Development services	1,067,377	1,067,377	975,048	92,329
Fire and rescue	2,133,987	2,133,987	2,081,889	52,098
Police	3,954,562	3,954,562	3,796,035	158,527
Public works and utilities	2,952,418	2,952,418	2,939,931	12,487
School	25,726,590	25,726,590	25,634,611	91,979
Other	488,277	488,277	411,199	77,078
Capital outlay	75,732	75,732	60,086	15,646
Debt service:				
Principal retirement	591,775	591,775	591,775	-
Interest and fiscal charges	145,266	145,266	145,265	1
Total Expenditures	<u>38,972,093</u>	<u>38,972,093</u>	<u>38,386,220</u>	<u>585,873</u>
Excess revenues over (under) expenditures	<u>(713,046)</u>	<u>(713,046)</u>	<u>823,050</u>	<u>1,536,096</u>
Other financing sources (uses):				
Transfers in	16,644	16,644	3,134	(13,510)
Transfers out	(103,598)	(103,598)	(126,436)	(22,838)
Total other financing sources (uses)	<u>(86,954)</u>	<u>(86,954)</u>	<u>(123,302)</u>	<u>(36,348)</u>
Net change in fund balance	(800,000)	(800,000)	699,748	1,499,748
Fund balance at beginning of year				
- Budgetary Basis	<u>4,608,343</u>	<u>4,608,343</u>	<u>4,608,343</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 3,808,343</u>	<u>\$ 3,808,343</u>	<u>\$ 5,308,091</u>	<u>\$ 1,499,748</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, 2019

<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, 2018	0.59462649%	\$ 2,722,472	\$ 16,767,460	16.24%	7.53%
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, 2019

<u>Cost-Sharing Multiple Employer Plan Information Only</u>					
<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, 2019	\$ 268,201	\$ (268,201)	\$ -	\$ 16,802,057	1.60%
June 30, 2018	\$ 263,021	\$ (263,021)	\$ -	\$ 16,767,460	1.57%
June 30, 2017	\$ 354,326	\$ (354,326)	\$ -	\$ 16,535,231	2.14%

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, 2019

<u>Single Employer Plan Information Only</u>		
	<u>2019</u>	<u>2018</u>
Total OPEB Liability:		
Service cost	\$ 273,431	\$ 437,287
Interest	233,514	337,275
Changes of benefit terms	-	-
Changes of assumptions or other inputs	(221,807)	(2,975,310)
Differences between expected and actual experience	-	(2,821,012)
Benefit payments	<u>(318,732)</u>	<u>(154,818)</u>
Net change in total OPEB liability	(33,594)	(5,176,578)
Total OPEB liability - beginning	<u>7,346,405</u>	<u>12,522,983</u>
Total OPEB liability - ending	<u>\$ 7,312,811</u>	<u>\$ 7,346,405</u>
Covered employee payroll	\$16,796,116	\$16,069,210
Total OPEB liability as a percentage of covered employee payroll	43.54%	45.72%

<u>Significant Actuarial Assumptions</u>		
Discount rate	3.87%	3.13%
Health cost trend rates		
Initial	7.50% - 2019	7.50% - 2018
Ultimate	4.50% - 2039	4.50% - 2038
Mortality improvement scale	MP-2018	MP-2017
Salary increase rate	3.00%	5.00%

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, 2019

<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, 2018	0.62533606%	\$ 30,111,197	\$ 16,767,460	179.58%	64.73%
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, 2019

<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, 2019	\$ 2,665,744	\$ (2,665,744)	\$ -	\$ 16,802,057	15.87%
June 30, 2018	\$ 2,643,031	\$ (2,643,031)	\$ -	\$ 16,767,460	15.76%
June 30, 2017	\$ 2,285,599	\$ (2,285,599)	\$ -	\$ 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%

See accompanying notes to the required supplementary information

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2019

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 GAAP budgetary activity 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	\$ 39,386,228	\$ 38,955,605
Difference in property taxes meeting susceptible to accrual criteria	154,634	
Encumbrances - June 30, 2018		(759,235)
Encumbrances - June 30, 2019		636,812
Capital lease activity	(410,821)	(410,821)
Non-budgetary revenues and expenditures	(11,641)	(107,307)
Non GAAP budgetary activity	94,004	94,004
Budgetary transfers in and out		103,598
Per Schedule 1	<u>\$ 39,212,404</u>	<u>\$ 38,512,656</u>

NOTE 2—BUDGETARY FUND BALANCE

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

Nonspendable for:	
Prepaid expenses	\$ 85,461
Unassigned for:	
General operations	5,223,440
	<u>\$ 5,308,901</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
For the Year Ended June 30, 2019

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.

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, 2019

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Passed Through to Subrecipients	Total Federal Expenditures
DEPARTMENT OF AGRICULTURE			
Pass Through Payments from New Hampshire Department of Education <i>Child Nutrition Cluster:</i>			
School Breakfast Program	10.553	\$ -	\$ 90,346
National School Lunch Program	10.555		
- School Lunch (Cash)			311,434
- Commodities (Non-cash)			31,291
Received directly from U.S. Department of Agriculture Fresh Fruit and Vegetables Order Receipt System			
- Commodities (Non-cash)	10.555		8,921
		-	351,646
<i>Total Child Nutrition Cluster</i>		-	441,992
Received directly from U.S. Department of Agriculture			
Farm to School Grant Program	10.575		
#CN-F2S-18-PLN-NII		-	31,988
Pass Through Payments from New Hampshire Department of Education			
Fresh Fruit and Vegetable Program	10.582	-	50,189
Total Department of Agriculture		-	524,169
DEPARTMENT OF JUSTICE			
Received directly from U.S. Treasury Department Public Safety Partnership and Community Policing Grants	16.710		
#COPS-2015-UM-WX-0061		-	41,214
Edward Byrne Memorial Justice Assistance Grant Program	16.738		
#2015-DJ-BX-0271			1,575
#2017-DJ-BX-0359			29,007
#2018-DJ-BX-0434			32,779
		39,702	63,361
Total Department of Justice		39,702	104,575
DEPARTMENT OF TRANSPORTATION			
Pass Through Payments from the New Hampshire Department of Highway Safety and Transportation <i>Highway Planning and Construction Cluster:</i>			
Highway Planning and Construction (Federal-Aid Highway Program)	20.205		
#X-A000(460)			31,380
#X-A002(540)			25,000
#X-A004(606)			40,211
		56,380	96,591

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, 2019

<u>Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number</u>	<u>Federal Catalogue Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
DEPARTMENT OF TRANSPORTATION (CONTINUED)			
<i>Highway Safety Cluster:</i>			
State and Community Highway Safety	20.600		
#315-18A-025			203
#318-18A-013			433
#19-170			2,098
		<u>-</u>	<u>2,734</u>
Total Department of Transportation		<u>56,380</u>	<u>99,325</u>
ENVIRONMENTAL PROTECTION AGENCY			
Pass Through Payments from the New Hampshire Department of Environmental Services			
<i>Clean Water State Revolving Fund Cluster:</i>			
Capitalization Grants for Clean Water State Revolving Funds	66.458		
#CS-33016306		<u>-</u>	<u>123,460</u>
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		
Breton Cleaners #14261			23,210
Received directly from U.S. Department of Environmental Services			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		4,729
		<u>-</u>	<u>27,939</u>
Total Environmental Protection Agency		<u>-</u>	<u>151,399</u>
DEPARTMENT OF EDUCATION			
Pass Through Payments from New Hampshire Department of Education			
Title I Grants to Local Educational Agencies	84.010		
#80131			54,045
#20180300			35,993
#20181609			6,805
#20190216			580,691
		<u>-</u>	<u>677,534</u>
<i>Special Education Cluster:</i>			
Special Education - Grants to States	84.027		
#82658			5,022
#92641			419,348
		<u>-</u>	<u>424,370</u>
Special Education - Preschool Grants	84.173		
#82658			678
#92587			9,165
#92641			13,153
		<u>-</u>	<u>22,996</u>
Total Special Education Cluster		<u>-</u>	<u>447,366</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, 2019

<u>Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number</u>	<u>Federal Catalogue Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
DEPARTMENT OF EDUCATION (CONTINUED)			
Career and Technical Education - Basic Grants to States #85014 #20193137	84.048		233 92,837 <u>93,070</u>
Twenty-First Century Community Learning Centers #20190036	84.287	-	<u>149,772</u>
Special Education - State Personnel Development #92587	84.323	-	<u>35,808</u>
English Language Acquisition State Grants #70808 #20180808 #20190272	84.365		4,101 14,398 7,747 <u>26,246</u>
Supporting Effective Instruction State Grants #84931 #20190196	84.367		12,495 112,908 <u>125,403</u>
School Improvement Grants #70407	84.377	-	<u>23,324</u>
Total Department of Education		-	<u>1,578,523</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Received directly from U.S. Department of Health and Human Services			
Drug-Free Communities Support Program Grants #5H79SP020829-04	93.276	-	<u>84,139</u>
Total Department of Health and Human Services		-	<u>84,139</u>
DEPARTMENT OF HOMELAND SECURITY			
Pass Through Payments from New Hampshire Department of Homeland Security and Emergency Management Disaster Grants - Public Assistance (Presidentially Declared Disaster) #FEMA-4371-DR			
	97.036	-	<u>36,097</u>
Emergency Management Performance Grants #FMB-2016-EP-00001-S0	97.042	-	<u>1,000</u>
Total Department of Homeland Security		-	<u>37,097</u>
Total Expenditures of Federal Awards		<u>\$ 96,082</u>	<u>\$ 2,579,227</u>

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, 2019

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, 2019. 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 for federal programs accounted for in the governmental funds and on the accrual basis of accounting for federal programs accounted for in the proprietary funds, 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 governmental funds and capital contributions in the proprietary funds as follows:

Major Funds:	
General Fund	\$ 77,311
Sewer Fund	123,460
Nonmajor Governmental Funds	<u>2,338,244</u>
	<u>\$ 2,539,015</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, 2019, 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 March 20, 2020.

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.

Vashon Clukay & Company PC

Manchester, New Hampshire
March 20, 2020

**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, 2019. 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, 2019.

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.

Vashon Clukay & Company PC

Manchester, New Hampshire
March 20, 2020

**City of Somersworth, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

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 federal 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>
84.010	Title I Grants to Local Educational Agencies

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 required to be reported under 2 CFR 200.516(a).