

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**

**Financial Statements**

**With Schedule of Expenditures of Federal Awards**

**June 30, 2014**

**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**

**Schedule of Findings and Questioned Costs**

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**FINANCIAL STATEMENTS**  
**June 30, 2014**

**TABLE OF CONTENTS**

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT	
MANAGEMENT'S DISCUSSION AND ANALYSIS	i-viii
<b>BASIC FINANCIAL STATEMENTS</b>	
EXHIBITS:	
A Statement of Net Position	1
B Statement of Activities	2
C Balance Sheet – Governmental Funds	3
D Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
E Statement of Net Position – Proprietary Funds	5
F Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	6
G Statement of Cash Flows – Proprietary Funds	7
H Statement of Fiduciary Net Position – Fiduciary Funds	8
I Statement of Changes in Fiduciary Net Position – Fiduciary Funds	9
NOTES TO BASIC FINANCIAL STATEMENTS	10-31
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
SCHEDULES:	
1 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund	32
2 Schedule of Funding Progress for Other Post-Employment Benefits	33
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	34
<b>FEDERAL COMPLIANCE</b>	
SCHEDULE:	
I Schedule of Expenditures of Federal Awards	35-36
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	37

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**FINANCIAL STATEMENTS**  
**June 30, 2014**

**TABLE OF CONTENTS (CONTINUED)**

	<u>Page(s)</u>
<b>FEDERAL COMPLIANCE (CONTINUED)</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	38-39
Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance	40-41
Schedule of Findings and Questioned Costs	42-43

## **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, 2014, 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, 2014, 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, and the schedule of funding progress for other post-employment benefits on pages i-viii and 32-34 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2015 on our consideration of the City of Somersworth, New Hampshire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Somersworth, New Hampshire's internal control over financial reporting and compliance.

*Jason Clukey & Company PC*

Manchester, New Hampshire  
February 25, 2015

## **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, 2014. 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, liabilities, deferred outflows of resources, 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, all of which are considered to be major funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the 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 \$29,670,166, presented as “net position” shown on the Statement of Net Position for the Total Primary Government. The City’s Net Position increased by \$4,561,457 compared to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$7,783,597, a change of \$3,825,350 in comparison with the prior year. This includes activity from the Capital Projects Fund for downtown improvements and replacement of HVAC units with a balance of \$989,704. The change in the General Fund and Non-major funds is \$1,851,546 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,906,643, a change of (\$139,879) in comparison with the prior year. Due to City Council action, \$1,698,888 of the General Fund fund balance has been designated for future years’ expenditures and classified as assigned.
- Total bonds payable at the close of the current fiscal year was \$35,804,480, a change of \$1,056,411 in comparison to the prior year. Additionally, the City has authorized and unissued debt in the amount of \$2,220,000 as of June 30, 2014.

## 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.

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$24,872	\$19,900	\$6,036	\$3,779	\$30,908	\$23,679
Capital Assets	39,924	38,642	20,464	20,425	60,388	59,067
Total Assets	64,796	58,542	26,500	24,204	91,296	82,746
Total Deferred Outflow of Resources	-	-	-	-	-	-
Long-term Liabilities outstanding	31,179	30,180	13,026	12,113	44,205	42,293
Other Liabilities	4,938	5,061	1,563	1,084	6,501	6,145
Total Liabilities	36,117	35,241	14,589	13,197	50,706	48,438
Total Deferred Inflow of Resources	10,919	9,199	-	-	10,919	9,199
Net Position:						
Invested in capital assets, net	18,320	16,898	8,032	9,167	26,352	26,065
Restricted	340	275	-	-	340	275
Unrestricted (Deficit)	(900)	(3,071)	3,879	1,840	2,979	(1,231)
Total Net Position	\$17,760	\$14,102	\$11,911	\$11,007	\$29,671	\$25,109

## CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,697	\$ 2,467	\$ 5,030	\$ 5,012	\$ 7,727	\$ 7,479
Operating grants and contributions	11,186	10,802	-	-	11,186	10,802
Capital grants and contributions	705	109	55	60	760	169
General revenues:						
Taxes	23,515	22,189	-	-	23,515	22,189
Licenses and Permits	1,704	1,486	-	-	1,704	1,486
Intergovernmental	524	525	-	-	524	525
Interest	61	20	-	-	61	20
Miscellaneous	<u>1,214</u>	<u>266</u>	<u>47</u>	<u>64</u>	<u>1,261</u>	<u>330</u>
Total revenues	<u>41,606</u>	<u>37,864</u>	<u>5,132</u>	<u>5,136</u>	<u>46,738</u>	<u>43,000</u>
Expenses:						
General government	1,798	1,577	-	-	1,798	1,577
Public safety	5,638	5,566	-	-	5,638	5,566
Highways and streets	2,251	2,135	-	-	2,251	2,135
Health and welfare	236	248	-	-	236	248
Culture and recreation	450	418	-	-	450	418
School department	27,079	26,069	-	-	27,079	26,069
Interest	546	454	-	-	546	454
Other	-	-	-	-	-	-
Water operations	-	-	1,762	1,835	1,762	1,835
Sewer operations	-	-	2,042	2,062	2,042	2,062
Solid waste operations	<u>-</u>	<u>-</u>	<u>374</u>	<u>353</u>	<u>374</u>	<u>353</u>
Total expenses	<u>37,998</u>	<u>36,467</u>	<u>4,178</u>	<u>4,250</u>	<u>42,176</u>	<u>40,717</u>
Change in net position before transfers	3,608	1,397	954	886	4,562	2,283
Transfers in (out)	<u>50</u>	<u>-</u>	<u>(50)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	3,658	1,397	904	886	4,562	2,283
Net position – beginning of year	<u>14,102</u>	<u>12,705</u>	<u>11,007</u>	<u>10,121</u>	<u>25,109</u>	<u>22,826</u>
Net position - end of the year	<u>\$17,760</u>	<u>\$14,102</u>	<u>\$11,911</u>	<u>\$11,007</u>	<u>\$29,671</u>	<u>\$25,109</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$29,670,166, a change of \$4,561,457 from the prior year.

The largest portion of the City's net position, \$26,352,076 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 related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$339,798 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,978,292 represents unrestricted net position.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$3,658,065. Key elements of this change are as follows:

	Governmental <u>Activities</u>
General fund operating results, as disclosed in Exhibit D	\$1,818,463
City Capital Projects fund, as disclosed in Exhibit D	1,973,804
Non-major funds - accrual basis	33,083
Other GAAP accruals	( 167,285)
Total	<u>\$3,658,065</u>

**Business-Type Activities.** Business-type activities for the year resulted in a change in net position of \$903,392. Key elements of this change are as follows:

Water Fund	\$494,157
Sewer Fund	399,030
Solid Waste Fund	<u>10,205</u>
Total	<u>\$903,392</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 \$7,783,597, a change of \$3,825,350 in comparison with the prior year. Key elements of this change are as follows:

	Governmental <u>Funds</u>
General fund operating results, as disclosed below	\$ 1,818,463
City Capital Projects fund results	1,973,804
Non-major fund operating results	<u>33,083</u>
Total	<u>\$ 3,825,350</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 \$2,906,643 while total fund balance was \$5,990,671. 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 \$1,818,463 during the current fiscal year. Key factors in this change are as follows:

	General <u>Fund</u>
Actual revenues in excess of budgeted amounts	\$1,232,801
Actual expenditures less than appropriated amounts	598,682
Property tax collections exceeding (less than) net tax levy	147,589
Use of fund balance as funding source	( 385,000)
Excess of current year encumbrances over prior year	187,950
Non-budgetary Revenues and Expenses:	
Capital Reserve Funds	83,298
Landfill Trust Fund	<u>( 46,857)</u>
Total	<u>\$1,818,463</u>

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

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

Unrestricted net assets of the enterprise funds at the end of the year are \$3,878,555, a change of \$2,038,343 in comparison with the prior year.

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

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

The original budget increased by \$373,485. On July 15, 2013, the Somersworth City Council adopted Ordinance 18-13 providing a supplemental appropriation in the amount of \$60,000 to re-purchase the former Somersworth Police Station. Subsequent to that, on March 3, 2014, the Somersworth City Council adopted Ordinance 11-14 providing a supplemental appropriation in the amount of \$313,485 for additional improvements with the Downtown Improvement Project.

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

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

Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 60,388,117 (net of accumulated depreciation), a change of \$1,320,089 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 \$ 35,804,480, 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 2014 saw a continued strengthening of the business sector in the State and region. New Hampshire's unemployment rate remained below the national average throughout the year ending 2014 at 4%, well below the national average of 5.6%. The City followed that downward trend in unemployment filings dipping as low as 3.5% over the course of the year. Our largest employer, Contitech, projects adding up to 100 employees in 2014 and 2015 and has been approved for another expansion at their facility.

2014 saw the redevelopment on High Street of the former Star Lumber property to a Goodwill facility and a retail plaza. The medical facilities on Route 108 and High Street continue to provide steady, quality employment for many area residents. The historic downtown underwent a significant infrastructure and streetscape improvement project that will wrap up in the spring/early summer 2015. Those investments have already led to a second request for the RSA 79-E tax incentive to rehabilitate a key downtown building and a renewed interest in available downtown storefronts.

## **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, 2014

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 19,709,630		\$ 19,709,630
Investments	3,289,866		3,289,866
Taxes receivable, net	1,019,267		1,019,267
Accounts receivable, net	238,659	\$ 775,173	1,013,832
Remediation recovery receivable	79,200		79,200
Due from other governments	884,301	122,388	1,006,689
Internal balances	(3,657,683)	3,657,683	-
Prepaid expenses	38,971		38,971
Inventory		134,433	134,433
Total Current Assets	<u>21,602,211</u>	<u>4,689,677</u>	<u>26,291,888</u>
Noncurrent Assets:			
Remediation recovery receivable	3,269,550		3,269,550
Due from other governments		1,346,261	1,346,261
Capital assets:			
Non-depreciable capital assets	4,336,488	1,588,295	5,924,783
Depreciable capital assets, net	<u>35,587,885</u>	<u>18,875,449</u>	<u>54,463,334</u>
Total Noncurrent Assets	<u>43,193,923</u>	<u>21,810,005</u>	<u>65,003,928</u>
Total Assets	<u>64,796,134</u>	<u>26,499,682</u>	<u>91,295,816</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	1,010,078	332,056	1,342,134
Accrued expenses	269,570	92,161	361,731
Retainage payable	77,622	77,622	155,244
Due to other governments	562,687		562,687
Bond anticipation notes payable	470,824		470,824
Current portion of bonds payable	2,154,895	1,061,848	3,216,743
Current portion of capital leases payable	217,569		217,569
Current portion of compensated absences payable	15,000		15,000
Current portion of estimated pollution remediation obligation	<u>160,000</u>		<u>160,000</u>
Total Current Liabilities	<u>4,938,245</u>	<u>1,563,687</u>	<u>6,501,932</u>
Noncurrent Liabilities:			
Bonds payable	19,748,792	12,838,945	32,587,737
Capital leases payable	622,346		622,346
Compensated absences payable	1,677,227	68,365	1,745,592
Other post-employment benefits payable	2,525,505	118,530	2,644,035
Estimated pollution remediation obligation	<u>6,605,151</u>		<u>6,605,151</u>
Total Noncurrent Liabilities	<u>31,179,021</u>	<u>13,025,840</u>	<u>44,204,861</u>
Total Liabilities	<u>36,117,266</u>	<u>14,589,527</u>	<u>50,706,793</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes collected in advance	<u>10,918,857</u>		<u>10,918,857</u>
Total Deferred Inflows of Resources	<u>10,918,857</u>	<u>-</u>	<u>10,918,857</u>
<b>NET POSITION</b>			
Net investment in capital assets	18,320,476	8,031,600	26,352,076
Restricted	339,798		339,798
Unrestricted (Deficit)	<u>(900,263)</u>	<u>3,878,555</u>	<u>2,978,292</u>
Total Net Position	<u>\$ 17,760,011</u>	<u>\$ 11,910,155</u>	<u>\$ 29,670,166</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, 2014

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	Business-type	
					Governmental Activities	Activities	
Governmental Activities:							
General government	\$ 1,797,879	\$ 133,877	\$ 1,587		\$ (1,662,415)		\$ (1,662,415)
Public safety	5,637,795	100,955	40,258		(5,496,582)		(5,496,582)
Highways and streets	2,059,812	11,746	235,251	\$ 704,556	(1,108,259)		(1,108,259)
Sanitation	191,120				(191,120)		(191,120)
Health and welfare	235,829				(235,829)		(235,829)
Culture and recreation	443,654	194,981	24,650		(224,023)		(224,023)
Conservation	270				(270)		(270)
Economic development	5,680				(5,680)		(5,680)
Education	26,320,979	1,969,606	9,487,493		(14,863,880)		(14,863,880)
Food service	758,607	286,123	486,076		13,592		13,592
Debt service	545,982		910,661		364,679		364,679
Total governmental activities	<u>37,997,607</u>	<u>2,697,288</u>	<u>11,185,976</u>	<u>704,556</u>	<u>(23,409,787)</u>	<u>\$ -</u>	<u>(23,409,787)</u>
Business-type activities:							
Water	1,762,029	2,273,882				511,853	511,853
Sewer	2,042,384	2,371,568		55,495		384,679	384,679
Solid waste	373,890	384,095				10,205	10,205
Total business-type activities	<u>4,178,303</u>	<u>5,029,545</u>	<u>-</u>	<u>55,495</u>	<u>-</u>	<u>906,737</u>	<u>906,737</u>
Total primary government	<u>\$ 42,175,910</u>	<u>\$ 7,726,833</u>	<u>\$ 11,185,976</u>	<u>\$ 760,051</u>	<u>(23,409,787)</u>	<u>906,737</u>	<u>(22,503,050)</u>
General revenues:							
Property and other taxes					23,514,958		23,514,958
Licenses and permits					1,703,883		1,703,883
Grants and contributions:							
Rooms and meals tax distribution					523,639		523,639
Interest and investment earnings					61,292		61,292
Miscellaneous					1,213,080	46,655	1,259,735
Transfers, net					50,000	(50,000)	-
Contributions to permanent fund principal					1,000		1,000
Total general revenues, transfers and contributions to permanent fund principal					<u>27,067,852</u>	<u>(3,345)</u>	<u>27,064,507</u>
Change in net position					3,658,065	903,392	4,561,457
Net position - beginning					14,101,946	11,006,763	25,108,709
Net position - ending					<u>\$ 17,760,011</u>	<u>\$ 11,910,155</u>	<u>\$ 29,670,166</u>

See accompanying notes to the basic financial statements



EXHIBIT C  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2014

	General Fund	City Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 19,584,495		\$ 125,135	\$ 19,709,630
Investments	497,029	\$ 2,506,662	286,175	3,289,866
Taxes receivable, net	1,019,267			1,019,267
Accounts receivable	220,032		18,627	238,659
Due from other governments		521,856	362,445	884,301
Due from other funds	164,801	458,078	321,731	944,610
Prepaid expenses	392,475			392,475
Total Assets	<u>21,878,099</u>	<u>3,486,596</u>	<u>1,114,113</u>	<u>26,478,808</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 21,878,099</u>	<u>\$ 3,486,596</u>	<u>\$ 1,114,113</u>	<u>\$ 26,478,808</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 569,243	\$ 209,643	\$ 146,090	\$ 924,976
Accrued expenses	127,611			127,611
Retainage payable		77,622		77,622
Due to other governments		562,687		562,687
Due to other funds	3,346,478	1,176,116	164,801	4,687,395
Bond anticipation notes payable		470,824		470,824
Total Liabilities	<u>4,043,332</u>	<u>2,496,892</u>	<u>310,891</u>	<u>6,851,115</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property taxes collected in advance	10,918,857			10,918,857
Unearned property tax revenue	925,239			925,239
Total Deferred Inflows of Resources	<u>11,844,096</u>	<u>-</u>	<u>-</u>	<u>11,844,096</u>
<b>FUND BALANCES</b>				
Nonspendable	392,475		211,583	604,058
Restricted		989,704	128,215	1,117,919
Committed	936,811		180,970	1,117,781
Assigned	1,754,742		282,454	2,037,196
Unassigned	2,906,643			2,906,643
Total Fund Balances	<u>5,990,671</u>	<u>989,704</u>	<u>803,222</u>	<u>7,783,597</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 21,878,099</u>	<u>\$ 3,486,596</u>	<u>\$ 1,114,113</u>	

Amounts reported for governmental activities in the statement of  
net position is different because:

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the funds 39,924,373

Other long-term assets are not available to pay current period  
expenditures, and therefore, are not reported in governmental funds 3,348,750

Property taxes are recognized on an accrual basis in the  
statement of net position, not the modified accrual basis 925,239

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 (22,189,251)  
Capital leases payable (839,915)  
Accrued interest on long-term obligations (209,899)  
Compensated absences payable (1,692,227)  
Other post-employment benefits payable (2,525,505)  
Estimated pollution remediation obligation (6,765,151)

Net position of governmental activities \$ 17,760,011

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, 2014

	General Fund	City Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 23,662,547			\$ 23,662,547
Licenses and permits	1,642,638		\$ 61,245	1,703,883
Intergovernmental	9,989,825	\$ 629,314	1,795,032	12,414,171
Charges for services	2,075,353		621,935	2,697,288
Interest and investment income	36,713	718	23,861	61,292
Miscellaneous	1,223,830	60,079	9,371	1,293,280
Total Revenues	<u>38,630,906</u>	<u>690,111</u>	<u>2,511,444</u>	<u>41,832,461</u>
Expenditures:				
Current operations:				
General government	1,604,479			1,604,479
Public safety	5,301,141		38,165	5,339,306
Highways and streets	1,703,567		109,963	1,813,530
Sanitation	351,120			351,120
Health and welfare	235,829			235,829
Culture and recreation	381,550		24,734	406,284
Conservation			270	270
Economic development	5,680			5,680
Education	23,517,091		1,377,762	24,894,853
Food service			758,607	758,607
Capital outlay	1,047,484	1,753,542	179,548	2,980,574
Debt service:				
Principal retirement	2,429,039			2,429,039
Interest and fiscal charges	574,634			574,634
Total Expenditures	<u>37,151,614</u>	<u>1,753,542</u>	<u>2,489,049</u>	<u>41,394,205</u>
Excess revenues over (under) expenditures	<u>1,479,292</u>	<u>(1,063,431)</u>	<u>22,395</u>	<u>438,256</u>
Other financing sources (uses):				
Proceeds from bond issuance		2,673,750		2,673,750
Proceeds from capital lease	663,344			663,344
Transfers in	5,982	363,485	16,670	386,137
Transfers out	(330,155)		(5,982)	(336,137)
Total other financing sources (uses)	<u>339,171</u>	<u>3,037,235</u>	<u>10,688</u>	<u>3,387,094</u>
Net change in fund balances	1,818,463	1,973,804	33,083	3,825,350
Fund balances at beginning of year	<u>4,172,208</u>	<u>(984,100)</u>	<u>770,139</u>	<u>3,958,247</u>
Fund balances at end of year	<u>\$ 5,990,671</u>	<u>\$ 989,704</u>	<u>\$ 803,222</u>	<u>\$ 7,783,597</u>

**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, 2014

Net Change in Fund Balances--Total Governmental Funds	\$ 3,825,350
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 capital outlays exceeded depreciation expense in the current period.	1,292,495
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(147,589)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	2,314,687
Repayment of principal on capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	114,352
Proceeds from bond issuance are other financing sources in the funds, but bond issuance increases long-term liabilities in the statement of net position.	(2,673,750)
Proceeds from capital leases are reported as other financing sources in the funds, but a capital lease increases long-term liabilities in the statement of net position.	(663,344)
Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	68,213
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.	(39,561)
Revenues in the governmental fund financial statements that reduce long-term assets recorded on the statement of net position are not reported as revenues in the statement of activities.	(79,200)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss of disposed capital assets reduced by the actual proceeds received from the sale of capital assets.	(10,968)
Some expenses reported in the statement of activities, such as compensated absences, other post-employment benefits, and the pollution remediation obligation, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(342,620)
Change in Net Position of Governmental Activities	<u>\$ 3,658,065</u>

See accompanying notes to the basic financial statements

EXHIBIT E  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Statement of Net Position**  
**Proprietary Funds**  
June 30, 2014

	Business-type Activities			
	Water <u>Fund</u>	Sewer <u>Fund</u>	Nonmajor <u>Fund</u>	<u>Totals</u>
<b>ASSETS</b>				
Current Assets:				
Accounts receivable, net	\$ 345,085	\$ 421,530	\$ 8,558	\$ 775,173
Due from other governments		122,388		122,388
Due from other funds	2,256,813	1,348,049	52,821	3,657,683
Inventory	110,606		23,827	134,433
Total Current Assets	<u>2,712,504</u>	<u>1,891,967</u>	<u>85,206</u>	<u>4,689,677</u>
Noncurrent Assets:				
Due from other governments		1,346,261		1,346,261
Capital assets:				
Non-depreciable capital assets	883,942	704,353		1,588,295
Depreciable capital assets, net	6,215,256	12,660,193		18,875,449
Total Noncurrent Assets	<u>7,099,198</u>	<u>14,710,807</u>	<u>-</u>	<u>21,810,005</u>
Total Assets	<u>9,811,702</u>	<u>16,602,774</u>	<u>85,206</u>	<u>26,499,682</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	187,268	118,311	26,477	332,056
Accrued expenses	66,489	25,672		92,161
Retainage payable	52,783	24,839		77,622
Current portion of bonds payable	452,834	609,014		1,061,848
Total Current Liabilities	<u>759,374</u>	<u>777,836</u>	<u>26,477</u>	<u>1,563,687</u>
Noncurrent Liabilities:				
Bonds payable	6,199,300	6,639,645		12,838,945
Compensated absences payable	29,582	38,783		68,365
Other post-employment benefits payable	75,051	43,479		118,530
Total Noncurrent Liabilities	<u>6,303,933</u>	<u>6,721,907</u>	<u>-</u>	<u>13,025,840</u>
Total Liabilities	<u>7,063,307</u>	<u>7,499,743</u>	<u>26,477</u>	<u>14,589,527</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	447,064	7,584,536		8,031,600
Unrestricted	2,301,331	1,518,495	58,729	3,878,555
Total Net Position	<u>\$ 2,748,395</u>	<u>\$ 9,103,031</u>	<u>\$ 58,729</u>	<u>\$ 11,910,155</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, 2014

	Business-type Activities			
	Water Fund	Sewer Fund	Nonmajor Fund	Totals
Operating revenues:				
Charges for services	\$ 2,273,882	\$ 2,371,568	\$ 384,095	\$ 5,029,545
Miscellaneous	32,304	14,351		46,655
Total operating revenues	<u>2,306,186</u>	<u>2,385,919</u>	<u>384,095</u>	<u>5,076,200</u>
Operating expenses:				
Personnel services	490,724	477,888		968,612
Contractual services	42,676	191,279	322,417	556,372
Repairs and maintenance	92,169	60,255		152,424
Administration	76,873	69,120	179	146,172
Materials and supplies	179,079	124,248	51,294	354,621
Utilities	162,897	203,191		366,088
Depreciation	425,062	648,090		1,073,152
Miscellaneous	55,782	55,000		110,782
Total operating expenses	<u>1,525,262</u>	<u>1,829,071</u>	<u>373,890</u>	<u>3,728,223</u>
Operating income	<u>780,924</u>	<u>556,848</u>	<u>10,205</u>	<u>1,347,977</u>
Non-operating (expenses):				
Interest expense	(236,767)	(213,313)		(450,080)
Total non-operating (expenses)	<u>(236,767)</u>	<u>(213,313)</u>	<u>-</u>	<u>(450,080)</u>
Income before capital contributions	544,157	343,535	10,205	897,897
Capital contributions		55,495		55,495
Transfers out	<u>(50,000)</u>			<u>(50,000)</u>
Change in net position	494,157	399,030	10,205	903,392
Total net position at beginning of year	<u>2,254,238</u>	<u>8,704,001</u>	<u>48,524</u>	<u>11,006,763</u>
Total net position at end of year	<u>\$ 2,748,395</u>	<u>\$ 9,103,031</u>	<u>\$ 58,729</u>	<u>\$ 11,910,155</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, 2014

	Business-type Activities			
	Water Fund	Sewer Fund	Nonmajor Fund	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 2,378,526	\$ 2,436,232	\$ 385,250	\$ 5,200,008
Cash paid to suppliers	(772,218)	(868,620)	(376,259)	(2,017,097)
Cash paid to employees	(313,228)	(279,935)		(593,163)
Net cash provided by operating activities	<u>1,293,080</u>	<u>1,287,677</u>	<u>8,991</u>	<u>2,589,748</u>
Cash flows from noncapital financing activities:				
Transfer to other funds	(50,000)			(50,000)
Net cash used for noncapital financing activities	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>
Cash flows from capital financing activities:				
Purchases of capital assets	(568,406)	(256,043)		(824,449)
Capital contributions		177,883		177,883
Proceeds from bonds issued	1,343,850	632,400		1,976,250
Principal paid on long-term debt	(345,973)	(541,701)		(887,674)
Interest paid on long-term debt	(253,182)	(229,239)		(482,421)
Net cash (used) for capital financing activities	<u>176,289</u>	<u>(216,700)</u>	<u>-</u>	<u>(40,411)</u>
Net increase in cash and cash equivalents	1,419,369	1,070,977	8,991	2,499,337
Cash and cash equivalents at beginning of year	837,444	277,072	43,830	1,158,346
Cash and cash equivalents at end of year	<u>\$ 2,256,813</u>	<u>\$ 1,348,049</u>	<u>\$ 52,821</u>	<u>\$ 3,657,683</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 780,924	\$ 556,848	\$ 10,205	\$ 1,347,977
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	425,062	648,090		1,073,152
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Accounts receivable, net	72,340	50,313	1,155	123,808
Inventory	115		(4,470)	(4,355)
Accounts payable	26,476	11,048	2,101	39,625
Accrued expenses	(1,297)	120		(1,177)
Compensated absences payable	(20,198)	10,252		(9,946)
Other post-employment benefits payable	9,658	11,006		20,664
Net cash provided by operating activities	<u>\$ 1,293,080</u>	<u>\$ 1,287,677</u>	<u>\$ 8,991</u>	<u>\$ 2,589,748</u>
Supplemental disclosure of non-cash transactions:				
Amortization on bond premiums	\$ 11,298	\$ 26,153	\$ -	\$ 37,451
Capital asset additions included in year end liabilities	195,340	91,925		287,265
	<u>\$ 206,638</u>	<u>\$ 118,078</u>	<u>\$ -</u>	<u>\$ 324,716</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, 2014

	Private- Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
ASSETS		
Cash and cash equivalents		\$ 263,857
Investments	\$ 186,559	
Due from other funds		85,102
Total Assets	<u>186,559</u>	<u>\$ 348,959</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows of Resources	<u>-</u>	
LIABILITIES		
Accounts payable		\$ 838
Due to student groups		82,430
Deposits		265,691
Total Liabilities	<u>-</u>	<u>\$ 348,959</u>
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources	<u>-</u>	
NET POSITION		
Held in trust	<u>186,559</u>	
Total Net Position	<u>\$ 186,559</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, 2014

	Private- Purpose <u>Trust Funds</u>
ADDITIONS:	
Investment earnings:	
Interest	\$ 4,678
Realized gains on investments	1,013
Net increase in the fair value of investments	<u>12,194</u>
Total Investment Earnings	<u>17,885</u>
Total Additions	<u>17,885</u>
DEDUCTIONS:	
Benefits	<u>15,849</u>
Total Deductions	<u>15,849</u>
Change in net position	2,036
Net position - beginning of year	<u>184,523</u>
Net position - end of year	<u>\$ 186,559</u>

*See accompanying notes to the basic financial statements*

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2014**

**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)**  
**June 30, 2014**

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 are the City's major governmental funds:

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.

The *City Capital Projects Fund* accounts for all financial transactions associated with City improvements. The fund accounts for the financing of the various projects, as well as all related capital outlay expenditures.

**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 ten

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

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.

***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, the recording of unearned 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.

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

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 taxes is recognized in the fiscal year for which the taxes are levied (see Note 2). 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 yearend: property taxes 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.

**2. Unearned Revenue:**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as unearned revenue.

**3. 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, 2014, the City applied \$325,000 of its unappropriated fund balance to reduce taxes.

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

***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:

	Due from <u>other funds</u>
Proprietary Funds:	
Water Fund	\$ 2,256,813
Sewer Fund	1,348,049
Nonmajor Fund	<u>52,821</u>
	<u>\$ 3,657,683</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, 2014 are recorded as receivables net of reserves for estimated uncollectibles of \$37,994 and \$46,837 in the Water Fund and Sewer Fund, respectively.

***Taxes Receivable***

Taxes levied during the current fiscal year and prior and uncollected at June 30, 2014 are recorded as receivables net of reserves for estimated uncollectibles of \$125,000.

***Prepaid Expenses***

Payments made to vendors for services that will benefit periods beyond June 30, 2014 are recorded as prepaid items.

***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.

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

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 fair values as of the date received. The City maintains a capitalization threshold of \$10,000. The City's infrastructure consists of roads, bridges, sidewalks, water purification and distribution system, sewer collection and treatment system, and similar items. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary capital assets is also capitalized.

All reported capital assets except for land, easements with an indefinite life 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 necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Infrastructure	30-75
Buildings and improvements	20-40
Vehicles and equipment	5

***Compensated Absences and Retirement Benefits***

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

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

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

***Bond Premium***

Bond premiums are amortized as a component of interest expense over the lives of the related bonds using the effective interest rate method. Bonds payable are reported in the accompanying financial statements including any applicable unamortized bond premium. The balances of the unamortized bond premiums as of June 30, 2014 are \$1,234,415 and \$342,226 in the governmental and business-type activities, respectively.

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

***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.

***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***

The City complies with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which established new fund balance classifications and changed the definition of governmental fund types. Under Statement 54, 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)**  
**June 30, 2014**

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. Significant estimates include accounts receivable for estimated recoveries of the pollution remediation obligations, depreciation expense, the allowance for uncollectible receivables, the estimated pollution remediation obligation, and the liability for other post-employment benefits.

**NOTE 2—PROPERTY TAXES**

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$845,720,630 as of April 1, 2013) and are due in two installments on July 1, 2013 and December 16,

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

2013. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end).

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

In accordance with State law, the City collects taxes for Strafford County, an independent governmental unit, which are remitted to the County as required by law. Total taxes appropriated during the year were \$2,271,477 for Strafford County. These taxes are not recognized as revenues in these financial statements. The City bears responsibility for uncollected taxes.

**NOTE 3—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, 2014, 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, 2014.

***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 \$5,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

***Worker's Compensation***

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



**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

**NOTE 4—DEPOSITS AND INVESTMENTS**

Deposits and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	\$ 19,709,630
Investments	3,289,866
Statement of fiduciary net position:	
Cash and cash equivalents	263,857
Investments	<u>186,559</u>
Total deposits and investments	<u>\$ 23,449,912</u>

Deposits and investments as of June 30, 2014 consist of the following:

Cash on hand	\$ 388
Deposits with financial institutions	19,973,099
Investments	<u>3,476,425</u>
Total deposits and investments	<u>\$ 23,449,912</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.

***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. As of June 30, 2014, none of these investments are rated.

The Trustees of Trust Funds have limited their investments to Mutual Funds and Money Market Mutual Funds, none of which are rated.

***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

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

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 \$13,499,193 was collateralized by securities held by the bank in the bank's name. As of June 30, 2014, 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>
Mutual funds	\$ 952,343
Money market mutual funds	17,420
	<u>\$ 969,763</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 public body of state, local and banking officials.

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.

**NOTE 5—CAPITAL ASSETS**

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

	<u>Balance 7/1/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2014</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 2,272,916			\$ 2,272,916
Easements	170,875			170,875
Construction in process	1,448,745	\$ 1,558,430	\$ (1,114,478)	1,892,697
Total capital assets not being depreciated	<u>3,892,536</u>	<u>1,558,430</u>	<u>(1,114,478)</u>	<u>4,336,488</u>
Other capital assets:				
Infrastructure	8,111,807	80,359		8,192,166
Buildings and improvements	43,876,955	1,407,089		45,284,044
Vehicles and equipment	5,511,593	1,084,692	(304,616)	6,291,669
Total other capital assets at historical cost	<u>57,500,355</u>	<u>2,572,140</u>	<u>(304,616)</u>	<u>59,767,879</u>

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

Less accumulated depreciation for:

Infrastructure	(2,132,154)	(164,860)		(2,297,014)
Buildings and improvements	(16,332,446)	(1,241,302)		(17,573,748)
Vehicles and equipment	(4,285,445)	(317,435)	293,648	(4,309,232)
Total accumulated depreciation	(22,750,045)	(1,723,597)	293,648	(24,179,994)
Total other capital assets, net	34,750,310	848,543	(10,968)	35,587,885
Total capital assets, net	<u>\$ 38,642,846</u>	<u>\$ 2,406,973</u>	<u>\$ (1,125,446)</u>	<u>\$ 39,924,373</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 87,066
Public safety	234,108
Highways and streets	320,690
Culture and recreation	23,418
Education	1,058,315
Total governmental activities depreciation expense	<u>\$ 1,723,597</u>

The balance of the assets acquired through capital leases as of June 30, 2014 is as follows:

Vehicles and equipment	\$ 1,352,280
Less accumulated depreciation:	
Vehicles and equipment	(241,087)
	<u>\$ 1,111,193</u>

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

	Balance 7/1/2013	Additions	Reductions	Balance 6/30/2014
Business-type activities:				
Capital asset not depreciated:				
Land	\$ 500,895			\$ 500,895
Construction in process		\$ 1,087,400		1,087,400
Total capital assets not being depreciated	<u>500,895</u>	<u>1,087,400</u>	<u>\$ -</u>	<u>1,588,295</u>
Other capital assets:				
Infrastructure	10,743,622	24,314		10,767,936
Buildings and improvements	25,942,226			25,942,226
Vehicles and equipment	918,095			918,095
Total other capital assets at historical cost	<u>37,603,943</u>	<u>24,314</u>	<u>-</u>	<u>37,628,257</u>
Less accumulated depreciation for:				
Infrastructure	(5,783,174)	(218,906)		(6,002,080)
Buildings and improvements	(11,294,738)	(803,076)		(12,097,814)
Vehicles and equipment	(601,744)	(51,170)		(652,914)
Total accumulated depreciation	<u>(17,679,656)</u>	<u>(1,073,152)</u>	<u>-</u>	<u>(18,752,808)</u>
Total other capital assets, net	<u>19,924,287</u>	<u>(1,048,838)</u>	<u>-</u>	<u>18,875,449</u>
Total capital assets, net	<u>\$ 20,425,182</u>	<u>\$ 38,562</u>	<u>\$ -</u>	<u>\$ 20,463,744</u>

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

Depreciation was charged to proprietary funds as follows:

Water fund	\$ 425,062
Sewer fund	648,090
Total Business-type activities depreciation expense	<u>\$ 1,073,152</u>

**NOTE 6—DEFINED BENEFIT PENSION PLAN**

***Plan Description***

The City contributes to the New Hampshire Retirement System (NHRS), a cost-sharing, multiple-employer, defined benefit pension plan administrated by the NHRS Board of Trustees. 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.

***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 25.30%, 27.74%, 14.16%, and 10.77%, respectively. The City contributes 100% of the employer cost for police officers, fire employees, teachers, and general employees of the City.

Under State law (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 years ending June 30, 2014, 2013 and 2012 were \$2,375,524, \$1,881,764, and \$1,805,987, respectively, equal to the required contributions for each year.

**NOTE 7—OTHER POST-EMPLOYMENT BENEFITS**

In addition to providing pension benefits, the City provides medical, life insurance, and dental benefits to its eligible retirees. General employees are required to reach age 60 with 10 years of service or a combined age and service of 70 years to qualify for this benefit. Police officers and firefighters are eligible to receive this benefit upon retirement with an attained age of 45 with 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 hired prior to May 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. As of July 1, 2013, the most recent actuarial valuation date, approximately 19 retirees and 291 active employees meet the eligibility requirements for medical benefits and approximately 14 retirees and 82 active employees meet the eligibility requirements for life insurance benefits. The plan does not issue a separate financial report.

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

***Annual OPEB Costs***

The City's fiscal 2014 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid, on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of thirty years. The City's annual OPEB cost for the year ending June 30, 2014 including the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2013 is as follows:

Annual Required Contribution (ARC)	\$ 885,860
Interest on Net OPEB obligation (NOO)	85,593
NOO amortization adjustment to ARC	(123,746)
Annual OPEB cost	847,707
Contributions made	(343,496)
Increase in Net OPEB obligation	504,211
Net OPEB obligation - beginning of year	2,139,824
Net OPEB obligation - end of year	<u>\$ 2,644,035</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for years ending June 30, 2014, 2013 and 2012 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 847,707	40.52%	\$2,644,035
6/30/2013	\$ 721,232	53.18%	\$2,139,824
6/30/2012	\$ 730,026	44.13%	\$1,802,126

The City's net OPEB obligation as of June 30, 2014 is recognized as a liability in these financial statements.

***Funded Status and Funding Progress for OPEB***

The funded status of the plan as of July 1, 2013, the date of the most recent actuarial valuation update is as follows:

Actuarial Accrued Liability (AAL)	\$ 7,039,499
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 7,039,499</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 16,313,028
UAAL as a percentage of covered payroll	43.2%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. The total cost of providing post-employment benefits is projected, taking into account assumptions about current claim cost, turnover, mortality, health care trends, and

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

other actuarial assumptions. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

***Actuarial Methods and Assumptions for OPEB***

Projections of benefits for financial reporting purposes are based on the plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2013 actuarial valuation the Projected Unit Credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend of 8.0% reduced by 0.5% decrements to an ultimate 5.0% long-term rate for all healthcare benefits after seven years. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is a level dollar amortization over maximum allowable period of thirty years on a closed group basis. This has been calculated assuming the amortization payment increases at a rate of 5.0% per year.

**NOTE 8—SHORT-TERM OBLIGATIONS**

The City issued bond anticipation notes during the year. These borrowings are to assist in the payment of infrastructure improvements in the downtown area and replacement of five HVAC units in school buildings and are guaranteed to be repaid from the future bond proceeds. This note matured and the balance was paid off by the City in July 2014 from bonds issued subsequent to year end (see Note 18).

The changes in the City's short-term obligations for the year ended June 30, 2014 are as follows:

Balance - July 1, 2013	\$ 791,590
Additions	470,824
Reductions	<u>(791,590)</u>
Balance - June 30, 2014	<u>\$ 470,824</u>

**NOTE 9—LONG-TERM OBLIGATIONS**

***General Long-term Obligations***

The changes in the City's long-term obligations for the year ended June 30, 2014 are as follows:

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

	Balance 7/1/2013	Additions	Reductions	Balance 6/30/2014	Due Within One Year
Governmental activities:					
Bonds payable	\$ 20,903,973	\$ 2,365,550	\$(2,600,251)	\$ 20,669,272	\$ 2,070,291
Unamortized bond premium	994,428	308,200	(68,213)	1,234,415	84,604
Total Bonds payable	21,898,401	2,673,750	(2,668,464)	21,903,687	2,154,895
Capital leases payable	290,923	663,344	(114,352)	839,915	217,569
Compensated absences	1,673,154	214,830	(195,757)	1,692,227	15,000
Total governmental activities	<u>\$ 23,862,478</u>	<u>\$ 3,551,924</u>	<u>\$(2,978,573)</u>	<u>\$ 24,435,829</u>	<u>\$ 2,387,464</u>
Business-type activities:					
Bonds payable	\$ 12,697,791	\$ 1,748,450	\$ (887,674)	\$ 13,558,567	\$ 1,014,188
Unamortized bond premium	151,877	227,800	(37,451)	342,226	47,660
Total Bonds payable	12,849,668	1,976,250	(925,125)	13,900,793	1,061,848
Compensated absences	78,311	15,306	(25,252)	68,365	
Total business-type activities	<u>\$ 12,927,979</u>	<u>\$ 1,991,556</u>	<u>\$ (950,377)</u>	<u>\$ 13,969,158</u>	<u>\$ 1,061,848</u>

Payments on the general obligation bonds and capital leases of the governmental activities are paid out of the General Fund. Payments on the remaining bonds 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, 2014 are comprised of the following individual issues:

	Original Issue <u>Amount</u>	Interest <u>Rate</u>	Final Maturity <u>Date</u>	Balance at <u>6/30/14</u>
1999 High Street Corridor bonds	\$ 1,300,000	4.5-5.25%	August 2019	\$ 390,000
2000 New City Hall bonds	1,400,000	4.75-5.25%	January 2021	520,000
2000 Plaza Upgrade bonds	475,000	4.75-5.125%	January 2015	30,000
2001 Landfill Cleanup bonds	750,000	4.125-4.80%	August 2016	150,000
2001 New City Hall bonds	450,000	4.125-4.80%	August 2016	90,000
2005 Capital Improvement bonds	1,395,355	4.0-5.0%	August 2015	274,900
2006 Police Station bonds	3,426,127	4.0-5.0%	August 2021	1,820,000
1996 School Bond bonds	5,300,000	5.625-5.75%	August 2016	795,000
1999 Kindergarten bonds	310,000	4.50-5.25%	August 2019	90,000
2008 School land bonds	1,338,545	4.00-5.25%	August 2018	665,000
2009 School bonds	18,953,000	3.73%	January 2030	13,478,822
2014 School HVAC bonds	2,365,550	4.1-5.60%	August 2028	617,100
2014 Downtown Improvement bonds	2,365,550	4.1-5.60%	August 2028	1,748,450
Totals				20,669,272
	Add: Unamortized bond premium			1,234,415
				<u>\$ 21,903,687</u>

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

Debt service requirements to retire general obligation bonds outstanding at June 30, 2014 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,070,291	\$ 539,582	\$ 2,609,873
2016	2,304,882	592,850	2,897,732
2017	2,092,777	580,228	2,673,005
2018	1,697,636	579,131	2,276,767
2019	1,651,991	587,696	2,239,687
2020-2024	6,028,191	3,184,761	9,212,952
2025-2029	4,236,009	3,820,594	8,056,603
2030	587,495	847,705	1,435,200
Total	20,669,272	10,732,547	31,401,819
Add: <i>Bond Premium</i>	1,234,415		1,234,415
Total	<u>\$ 21,903,687</u>	<u>\$ 10,732,547</u>	<u>\$ 32,636,234</u>

Business-type Activities

Bonds payable at June 30, 2014 are comprised of the following individual issues:

	Original Issue <u>Amount</u>	Interest <u>Rate</u>	Maturity <u>Date</u>	Balance at <u>6/30/14</u>
<u>Water Fund:</u>				
Water High Lift Project bonds	\$ 650,000	3.4725%	October 2016	\$ 130,000
Water treatment plant upgrade bonds	1,843,500	4.25-5.25%	January 2028	1,275,000
Water treatment plant bonds	5,000,000	3.488%	April 2028	3,914,582
Downtown Improvement bonds	1,188,946	4.1-5.60%	August 2028	1,188,946
				6,508,528
Add: Unamortized bond premium				143,606
				<u>6,652,134</u>
<u>Sewer Fund:</u>				
Wastewater refunding bonds	\$ 7,810,000	2.0-4.0%	January 2026	6,045,000
Wastewater treatment facility bonds	524,944	2.952%	January 2029	445,535
Downtown Improvement bonds	559,504	4.1-5.60%	August 2028	559,504
				7,050,039
Add: Unamortized bond premium				198,620
				<u>7,248,659</u>
				<u>\$ 13,900,793</u>

Debt service requirements to retire general obligation bonds for business-type activities at June 30, 2014 are as follows:



**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,014,188	\$ 363,826	\$ 1,378,014
2016	1,015,645	450,461	1,466,106
2017	1,029,083	408,679	1,437,762
2018	984,477	371,314	1,355,791
2019	988,505	341,615	1,330,120
2020-2024	5,024,223	1,194,245	6,218,468
2025-2029	3,472,010	317,167	3,789,177
2030	30,436	898	31,334
Total	13,558,567	3,448,205	17,006,772
Add: <i>Bond Premium</i>	342,226		342,226
Total	<u>\$ 13,900,793</u>	<u>\$ 3,448,205</u>	<u>\$ 17,348,998</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, 2014, the reimbursement was \$177,883 in the Sewer Fund.

***Capital Lease Obligations***

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, 2014:

Equipment due in annual installments of \$30,980, including interest of 3.40%, through December 2016	\$ 86,955
Equipment due in annual installments of \$35,255, including interest of 5.02%, through October 2014	33,569
Equipment due in annual installments of \$66,390, including interest at 1.57%, through February 2019	316,881
Vehicle due in annual installments of \$72,587, including interest at 1.57%, through March 2019	346,463
Equipment due in annual installments of \$29,926, including interest at 4.374%, through October 2015	56,047
	<u>\$ 839,915</u>

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2014 are as follows:

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

Year Ending June 30,	Principal	Interest	Total
2015	\$ 217,569	\$ 17,569	\$ 235,138
2016	188,201	11,682	199,883
2017	162,597	7,360	169,957
2018	134,717	4,260	138,977
2019	136,831	2,147	138,978
Total	<u>\$ 839,915</u>	<u>\$ 43,018</u>	<u>\$ 882,933</u>

***Authorized and Unissued Debt***

The following debt was authorized and unissued as of June 30, 2014:

	Amount
Downtown improvements and HVAC units	\$ 120,000
Downtown improvements, HVAC units and bridge rehabilitation	1,000,000
High Street road and utility improvements	1,100,000
	<u>\$ 2,220,000</u>

**NOTE 10—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). 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, EPA selected a remedy that provides treatment of contaminated overburden and bedrock ground water with flushing of contamination from the source area. The key element of this process is the construction of a permeable treatment wall composed of impermeable barrier sections and innovative, permeable, chemical treatment sections to provide in-situ, flow-through treatment of contaminated ground water at 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 third 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, 2014, the City estimates the pollution remediation obligation to be \$6,765,151 and estimated recoveries from the potentially responsible party of \$3,348,750. The estimated obligation was calculated using the expected cash flow technique measured at

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

current value. In making this estimate, the City assumed current monitoring procedures would be adequate 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.

The following is a summary of changes in the estimated pollution remediation obligation and the remediation recovery receivable for the year ended June 30, 2014:

	Pollution Remediation Obligation	Remediation Recovery Receivable
Balance - July 1, 2013	\$ 6,925,151	\$ 3,427,950
Expenditures recognized in the General Fund	(225,362)	
Reimbursement from third party		(79,569)
Net change in estimated remediation obligation/ recovery receivable	<u>65,362</u>	<u>369</u>
Balance - June 30, 2014	<u>\$ 6,765,151</u>	<u>\$ 3,348,750</u>

**NOTE 11—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, 2014 are as follows:

	Due from			Totals
	General Fund	City Capital Projects Fund	Nonmajor Governmental Funds	
General Fund			\$ 164,801	\$ 164,801
City Capital Projects Fund	\$ 458,078			458,078
Nonmajor Governmental Funds	321,731			321,731
Water Fund	1,457,054	\$ 799,759		2,256,813
Sewer Fund	971,692	376,357		1,348,049
Nonmajor Enterprise Fund	52,821			52,821
Agency Funds	85,102			85,102
	<u>\$ 3,346,478</u>	<u>\$ 1,176,116</u>	<u>\$ 164,801</u>	<u>\$ 4,687,395</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, 2014 are as follows:

	Transfer from			Totals
	General Fund	Nonmajor Governmental Funds	Water Fund	
General Fund		\$ 5,982		\$ 5,982
City Capital Projects Fund	\$ 313,485		\$ 50,000	363,485
Nonmajor Governmental Funds	16,670			16,670
	<u>\$ 330,155</u>	<u>\$ 5,982</u>	<u>\$ 50,000</u>	<u>\$ 386,137</u>

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

**NOTE 12—RESTRICTED NET POSITION**

Net position is restricted for specific purposes as follows:

	Governmental Activities
Permanent Funds - Principal	\$ 211,583
Permanent Funds - Income	19,987
Capital Projects	989,704
Food service operations	37,740
Grants	70,488
	<u>1,329,502</u>
Less unexpended bond proceeds	<u>(989,704)</u>
	<u>\$ 339,798</u>

**NOTE 13—COMPONENTS OF FUND BALANCE**

The components of the City's fund balance for its governmental funds at June 30, 2014 are as follows:

	General Fund	City Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable for:</b>				
Prepaid expenses	\$ 392,475			\$ 392,475
Permanent Funds - principal			\$ 211,583	211,583
<b>Restricted for:</b>				
Capital Projects		\$ 989,704		989,704
Permanent Funds - income			19,987	19,987
Food service operations			37,740	37,740
Grants			70,488	70,488
<b>Committed for:</b>				
Capital Projects			124,743	124,743
Capital Reserve	486,823			486,823
Landfill Trust	103,533			103,533
Encumbrances	346,455			346,455
Municipal Transportation			56,227	56,227
<b>Assigned for:</b>				
Conservation			78,011	78,011
Cable Communications			83,042	83,042
School operations			121,401	121,401
Encumbrances	55,854			55,854
Designated to offset subsequent fiscal year tax rate	1,698,888			1,698,888
<b>Unassigned for:</b>				
General Fund	2,906,643			2,906,643
	<u>\$ 5,990,671</u>	<u>\$ 989,704</u>	<u>\$ 803,222</u>	<u>\$ 7,783,597</u>

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2014**

**NOTE 14—COMMITMENTS**

The City entered into a long-term contract with an independent company to provide solid waste and recycling collection and disposal services. This contract is effective for the period January 1, 2011 through June 30, 2015. Terms of the agreement include minimum payments and a bi-annual fuel adjustment based on the average cost of diesel fuel for the previous six months.

During the year ended June 30, 2014, the City expended \$316,927 and \$131,900 for solid waste and recycling services, respectively, under the terms of the agreement. The minimum future payments are as follows:

Year Ending June 30, 2015	Solid Waste Collection and Disposal	Recycling Collection and Disposal	Totals
	<u>\$ 318,775</u>	<u>\$ 151,326</u>	<u>\$ 470,101</u>

**NOTE 15—CONTINGENT LIABILITIES**

***Litigation***

There are various claims and suits pending against the City, which arise in the normal course of the City's activities. In the opinion of legal counsel and City management, the 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 16—SUBSEQUENT EVENTS**

During July 2014, the City issued general obligation bonds in the amount of \$2,222,197 for the purpose of infrastructure improvements in the downtown area and High Street and the replacement of HVAC units in school buildings. Of the total bonds issued, \$262,197 represents a premium received on the bonds. These bonds have an interest rate of 3.10% - 5.10% and mature August 2029.

**NOTE 17—IMPLEMENTATION OF FUTURE ACCOUNTING STANDARDS**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which the City is required to implement in the year ended June 30, 2015. Management believes that this pronouncement will have a potentially significant impact on the City's government wide financial statements. The City will have to report its estimated proportional share of the New Hampshire Retirement System's unfunded pension liability in the financial statements for the fiscal year beginning after June 15, 2014.

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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Taxes	\$ 23,500,800	\$ 23,500,800	\$ 23,514,958	\$ 14,158
Licenses and permits	1,414,625	1,414,625	1,642,638	228,013
Intergovernmental	9,739,303	9,739,303	9,989,825	250,522
Charges for services	1,919,727	1,919,727	2,075,353	155,626
Interest income	20,000	20,000	17,332	(2,668)
Miscellaneous	246,108	559,593	1,144,261	584,668
Total Revenues	<u>36,840,563</u>	<u>37,154,048</u>	<u>38,384,367</u>	<u>1,230,319</u>
Expenditures:				
Current operations:				
Elected leadership	119,811	119,811	115,394	4,417
City management	407,324	407,324	332,023	75,301
Finance and administration	1,115,818	1,115,818	1,044,986	70,832
Development services	898,601	898,601	861,897	36,704
Fire and rescue	2,053,493	2,053,493	2,002,505	50,988
Police	3,373,708	3,373,708	3,188,292	185,416
Public works and utilities	2,131,302	2,131,302	2,027,812	103,490
School	25,557,232	25,557,232	25,494,875	62,357
Other	257,403	257,403	255,994	1,409
Capital outlay	182,957	242,957	235,189	7,768
Debt service:				
Principal retirement	680,000	680,000	680,000	-
Interest and fiscal charges	229,262	229,262	229,262	-
Total Expenditures	<u>37,006,911</u>	<u>37,066,911</u>	<u>36,468,229</u>	<u>598,682</u>
Excess revenues over (under) expenditures	<u>(166,348)</u>	<u>87,137</u>	<u>1,916,138</u>	<u>1,829,001</u>
Other financing sources (uses):				
Transfers in	3,500	3,500	5,982	2,482
Transfers out	(162,152)	(475,637)	(475,637)	-
Total other financing sources (uses)	<u>(158,652)</u>	<u>(472,137)</u>	<u>(469,655)</u>	<u>2,482</u>
Net change in fund balance	(325,000)	(385,000)	1,446,483	1,831,483
Fund balance at beginning of year				
- Budgetary Basis	<u>4,476,762</u>	<u>4,476,762</u>	<u>4,476,762</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 4,151,762</u>	<u>\$ 4,091,762</u>	<u>\$ 5,923,245</u>	<u>\$ 1,831,483</u>

See accompanying notes to the required supplementary information

SCHEDULE 2

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**

**Schedule of Funding Progress for Other Post-Employment Benefits**

For the Year Ended June 30, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Projected Unit Credit</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2009	\$ -	\$ 6,474,134	\$ 6,474,134	0%	\$ 14,912,999	43.4%
7/1/2011	\$ -	\$ 6,241,717	\$ 6,241,717	0%	\$ 14,703,276	42.5%
7/1/2013	\$ -	\$ 7,039,499	\$ 7,039,499	0%	\$ 16,313,028	43.2%

*See accompanying notes to the required supplementary information*

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2014**

**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 expenditures were adjusted for encumbrances. Budgetary revenues and expenditures were adjusted for capital lease activity, non-budgetary activity, and budgetary transfers out as follows:

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Per Exhibit D	\$ 39,300,232	\$ 37,481,769
Difference in property taxes meeting susceptible to accrual criteria	(147,589)	
Encumbrances - June 30, 2013		(214,359)
Encumbrances - June 30, 2014		402,309
Capital lease activity	(663,344)	(663,344)
Budgetary transfers out		162,152
Non-budgetary revenues and expenditures	(98,950)	(224,661)
Per Schedule 1	<u>\$ 38,390,349</u>	<u>\$ 36,943,866</u>

**NOTE 2—BUDGETARY FUND BALANCE**

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

<b>Nonspendable for:</b>	
Prepaid expenses	\$ 392,475
<b>Assigned for:</b>	
Designated to offset subsequent fiscal year tax rate	1,698,888
<b>Unassigned for:</b>	
General operations	<u>3,831,882</u>
	<u>\$ 5,923,245</u>



SCHEDULE I  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Schedule of Expenditures of Federal Awards**  
For the Year Ended June 30, 2014

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
<b>DEPARTMENT OF AGRICULTURE</b>		
Pass Through Payments from New Hampshire Department of Education <b>Child Nutrition Cluster:</b>		
School Breakfast Program	10.553	\$ 110,679
National School Lunch Program	10.555	361,808
Special Milk Program for Children	10.556	247
<b>Total Child Nutrition Cluster</b>		<u>472,734</u>
Fresh Fruit and Vegetable Program	10.582	<u>41,706</u>
<b>Total Department of Agriculture</b>		<u>514,440</u>
<b>DEPARTMENT OF THE INTERIOR</b>		
Pass Through Payments from New Hampshire Division of Historical Resources Historic Preservation Fund Grants-In-Aid #CLG-12-41936-03	15.904	<u>24,650</u>
<b>Total Department of the Interior</b>		<u>24,650</u>
<b>DEPARTMENT OF JUSTICE</b>		
Received directly from U.S. Treasury Department Bulletproof Vest Partnership Program	16.607	1,035
Pass Through Payments from the County of Strafford, New Hampshire Edward Byrne Memorial Justice Assistance Grant Program #2013-H4739-NH-DJ	16.738	<u>10,154</u>
<b>Total Department of Justice</b>		<u>11,189</u>
<b>DEPARTMENT OF TRANSPORTATION</b>		
Pass Through Payments from the New Hampshire Department of Highway Safety and Transportation Highway Planning and Construction NH9-#19274.00#12228 #X-A001(109)	20.205	<u>629,314</u> <u>26,680</u> <u>655,994</u>
Alcohol Impaired Driving Countermeasures Incentive Grants I #308-13A-111	20.601	<u>10,000</u>
<b>Total Department of Transportation</b>		<u>665,994</u>
<b>DEPARTMENT OF EDUCATION</b>		
Pass Through Payments from New Hampshire Department of Education Title I Grants to Local Educational Agencies #30131 #30166 #30299	84.010	<u>41,592</u> <u>24,054</u> <u>759</u>

See notes to schedule of expenditures of federal awards

SCHEDULE 1  
**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**Schedule of Expenditures of Federal Awards (Continued)**  
For the Year Ended June 30, 2014

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
<b>DEPARTMENT OF EDUCATION (CONTINUED)</b>		
#30300		1,897
#30330		840
#31521		3,951
#31526		4,698
#40131		486,284
#40166		54,679
#40211		39,435
#40300		31,807
#40330		32,275
		<u>722,271</u>
Career and Technical Education - Basic Grants to States	84.048	
#35034		6,208
#45034		76,363
		<u>82,571</u>
Twenty-First Century Community Learning Centers	84.287	
#45326		<u>216,424</u>
English Language Acquisition State Grants	84.365	
#30807		9,598
#40807		4,047
#40901		734
		<u>14,379</u>
Improving Teacher Quality State Grants	84.367	
#34931		4,288
#44931		127,728
		<u>132,016</u>
<b>Total Department of Education</b>		<u>1,167,661</u>
<b>DEPARTMENT OF HOMELAND SECURITY</b>		
Pass Through Payments from New Hampshire		
Department of Safety		
Hazard Mitigation Grant	97.039	
#FEMA-DR-1812-NH		48,562
Assistance to Firefighters Grant	97.044	
#EMW-2009-FO-03851		35
Homeland Security Grant Program	97.067	
VC#177476-B001		<u>17,976</u>
<b>Total Department of Homeland Security</b>		<u>66,573</u>
<b>Total Expenditures of Federal Awards</b>		<u><u>\$ 2,450,507</u></u>

See notes to schedule of expenditures of federal awards

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2014**

**NOTE 1—GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Somersworth, New Hampshire. The City of Somersworth's reporting entity is defined in Note 1 to the City's basic financial statements.

**NOTE 2—BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements.

**NOTE 3—NON-CASH TRANSACTIONS**

The City participates in the USDA Food Distribution Program which is a non-cash program. The value of commodities expended by the City is \$31,476 and has been reported on the Schedule of Expenditures of Federal Awards as part of the National School Lunch Program.

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

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

Major Funds:	
General Fund	\$ 1,035
City Capital Projects Fund	629,314
Nonmajor Funds	<u>1,788,682</u>
	<u>\$ 2,419,031</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, 2014, and the related notes to the financial statements, which collectively comprise the City of Somersworth, New Hampshire's basic financial statements, and have issued our report thereon dated February 25, 2015.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

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

Manchester, New Hampshire  
February 25, 2015

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE****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 Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2014.



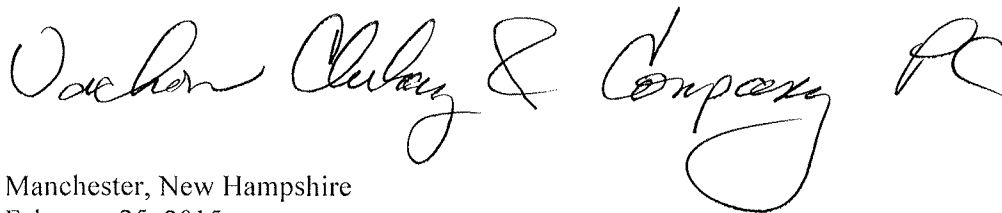
## Report on Internal Control Over Compliance

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Jackson Quibey & Company PC". The signature is written in a cursive, flowing style. The "J" is large and loops around the "a". The "P" at the end is also large and loops around the "y".

Manchester, New Hampshire  
February 25, 2015

**City of Somersworth, New Hampshire  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2014**

**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  
         not considered to be material weaknesses? \_\_\_\_\_yes    X none reported  
 Noncompliance material to financial statements noted? \_\_\_\_\_yes    X no

**Federal Awards**

Internal Control over major programs:  
     Material weakness(es) identified? \_\_\_\_\_yes    X no  
     Significant deficiency(ies) identified  
         not considered to be material weaknesses? \_\_\_\_\_yes    X none reported  
 Type of auditor's report issued on compliance  
     for major programs: Unmodified  
 Any audit findings disclosed that are required  
     to be reported in accordance with  
     Circular A-133, Section .510(a)? \_\_\_\_\_yes    X no

Identification of major programs:

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
20.205	Highway Planning and Construction
84.010	Title I Grants to Local Educational Agencies
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and B program: \$ 300,000.

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 OMB Circular A-133 .510(a).