

CITY OF SOMERSWORTH, NEW HAMPSHIRE

Financial Statements

With Schedule of Expenditures of Federal Awards

June 30, 2015

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, 2015

TABLE OF CONTENTS

| | <u>Page(s)</u> |
|---|----------------|
| INDEPENDENT AUDITOR'S REPORT | |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | i-viii |
| BASIC FINANCIAL STATEMENTS | |
| 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 | 10-36 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| SCHEDULES: | |
| 1 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund | 37 |
| 2 Schedule of Funding Progress for Other Post-Employment Benefits | 38 |
| 3 Schedule of Changes in the City's Proportionate Share of the Net Pension Liability | 39 |
| 4 Schedule of City Contributions | 40 |
| NOTES TO REQUIRED SUPPLEMENTARY INFORMATION | 41-42 |

**CITY OF SOMERSWORTH, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2015**

TABLE OF CONTENTS (CONTINUED)

| | <u>Page(s)</u> |
|--|----------------|
| FEDERAL COMPLIANCE | |
| SCHEDULE: | |
| I Schedule of Expenditures of Federal Awards | 43-44 |
| NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 45 |
| 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> | 46-47 |
| Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance | 48-49 |
| Schedule of Findings and Questioned Costs | 50-51 |

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, 2015, 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, 2015, 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, the schedule of funding progress for other post-employment benefits, the schedule of changes in the City's proportionate share of the net pension liability, and the schedule of City contributions on pages i-viii and 37-42 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 March 1, 2016 on our consideration of the City of Somersworth, New Hampshire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

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

Vachon Clark & Company PC

Manchester, New Hampshire
March 1, 2016

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, 2015. 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, only the water and sewer are major funds.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by the *Governmental Accounting Standards Board*.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8,818,477, presented as “net position” shown on the Statement of Net Position for the Total Primary Government. The City’s Net Position increased by \$4,111,338 compared to the prior year, after restatement. The City’s net position was restated due to the implementation of GASB 68 – *Accounting and Financial Reporting for Pensions* during the year ended June 30, 2015.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$6,875,618, a change of (\$985,510) in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,882,740, a change of \$976,097 in comparison with the prior year. Due to City Council action, \$535,000 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 \$34,783,450, a change of (\$1,021,030) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

| | Governmental Activities | | Business-Type Activities | | Total | |
|-------------------------------------|----------------------------|-------------|-----------------------------|-------------|-------------|-------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Current and other Assets | \$23,054 | \$24,949 | \$5,690 | \$6,036 | \$28,744 | \$30,985 |
| Capital Assets | 43,491 | 39,924 | 20,693 | 20,464 | 64,184 | 60,388 |
| Total Assets | 66,545 | 64,873 | 26,383 | 26,500 | 92,928 | 91,373 |
| Total deferred outflow of resources | 2,411 | 2,012 | 58 | 62 | 2,469 | 2,074 |
| Long-term Liabilities outstanding | 54,077 | 57,456 | 12,825 | 13,863 | 66,902 | 71,319 |
| Other Liabilities | 4,527 | 4,938 | 1,366 | 1,564 | 5,893 | 6,502 |
| Total Liabilities | 58,604 | 62,394 | 14,191 | 15,427 | 72,795 | 77,821 |
| Total deferred inflow of resources | 13,684 | 10,919 | 100 | - | 13,784 | 10,919 |
| Net Position: | | | | | | |
| Invested in capital assets, net | 20,944 | 18,320 | 7,746 | 8,032 | 28,690 | 26,352 |
| Restricted | 1,233 | 340 | - | - | 1,233 | 340 |
| Unrestricted (Deficit) | (25,509) | (25,088) | 4,404 | 3,103 | (21,105) | (21,985) |
| Total Net Position | (\$3,332) | (\$6,428) | \$12,150 | \$11,135 | \$8,818 | \$4,707 |

CHANGES IN NET POSITION

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|---|------------------------------------|------------------|-------------------------------------|-----------------|----------------|----------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 2,445 | \$ 2,697 | \$ 5,302 | \$ 5,030 | \$ 7,747 | \$ 7,727 |
| Operating grants and contributions | 11,880 | 11,186 | - | - | 11,880 | 11,186 |
| Capital grants and contributions | 677 | 705 | 51 | 55 | 728 | 760 |
| General revenues: | | | | | | |
| Taxes | 23,517 | 23,515 | - | - | 23,517 | 23,515 |
| Licenses and Permits | 1,731 | 1,704 | - | - | 1,731 | 1,704 |
| Intergovernmental | 567 | 524 | - | - | 567 | 524 |
| Interest | 47 | 61 | - | - | 47 | 61 |
| Miscellaneous | <u>307</u> | <u>1,214</u> | <u>34</u> | <u>47</u> | <u>341</u> | <u>1,261</u> |
| Total revenues | 41,171 | 41,606 | 5,387 | 5,132 | 46,558 | 46,738 |
| Expenses: | | | | | | |
| General government | 1,835 | 1,798 | - | - | 1,835 | 1,798 |
| Public safety | 5,641 | 5,638 | - | - | 5,641 | 5,638 |
| Highways and streets | 2,235 | 2,251 | - | - | 2,235 | 2,251 |
| Health and welfare | 264 | 236 | - | - | 264 | 236 |
| Culture and recreation | 449 | 450 | - | - | 449 | 450 |
| School department | 27,080 | 27,079 | - | - | 27,080 | 27,079 |
| Interest | 571 | 546 | - | - | 571 | 546 |
| Other | - | - | - | - | - | - |
| Water operations | - | - | 1,945 | 1,762 | 1,945 | 1,762 |
| Sewer operations | - | - | 2,036 | 2,042 | 2,036 | 2,042 |
| Solid waste operations | <u>-</u> | <u>-</u> | <u>391</u> | <u>374</u> | <u>391</u> | <u>374</u> |
| Total expenses | <u>38,075</u> | <u>37,998</u> | <u>4,372</u> | <u>4,178</u> | <u>42,447</u> | <u>42,176</u> |
| Change in net position before transfers | 3,096 | 3,608 | 1,015 | 954 | 4,111 | 4,562 |
| Transfers in (out) | <u>-</u> | <u>50</u> | <u>-</u> | <u>(50)</u> | <u>-</u> | <u>-</u> |
| Change in net position | 3,096 | 3,658 | 1,015 | 904 | 4,111 | 4,562 |
| Net position – beginning, as restated | <u>(6,428)</u> | <u>(10,086)</u> | <u>11,135</u> | <u>10,231</u> | <u>4,707</u> | <u>145</u> |
| Net position - end of the year | <u>(\$3,332)</u> | <u>(\$6,428)</u> | <u>\$12,150</u> | <u>\$11,135</u> | <u>\$8,818</u> | <u>\$4,707</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 \$8,818,477, a change of \$4,111,338 from the prior year as restated.

The largest portion of the City's net position, \$28,689,951 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of accumulated depreciation, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$1,232,917 represents resources that are subject to external restrictions on how they may be used. The remaining balance of (\$21,104,391) represents a deficit in unrestricted net position. This deficit is due to the implementation of GASB 68 whereby the City must report our proportionate share of the net pension liability for the New Hampshire Retirement System.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$3,095,857. Key elements of this change are as follows:

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| General fund operating results, as disclosed in Exhibit D | (\$ 633,304) |
| Non-major funds – operating results | (352,206) |
| Other GAAP accruals – see Exhibit D in the financial statements | <u>4,081,367</u> |
| Total | <u>\$3,095,857</u> |

Business-Type Activities. Business-type activities for the year resulted in a change in net position of \$1,015,481. Key elements of this change are as follows:

| | |
|------------------|--------------------|
| Water Fund | \$ 510,747 |
| Sewer Fund | 514,583 |
| Solid Waste Fund | (9,849) |
| Total | <u>\$1,015,481</u> |

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$6,875,618, as restated, a change of (\$985,510) in comparison with the prior year. Key elements of this change are as follows:

| | Governmental Funds |
|--|-----------------------|
| General fund operating results, as disclosed below | (\$ 633,304) |
| Non-major fund operating results | <u>(352,206)</u> |
| Total | <u>(\$ 985,510)</u> |

The general fund is the main operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,882,740 while total fund balance was \$5,357,367. 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 decreased by (\$633,304) during the current fiscal year. Key factors in this change are as follows:

| | General Fund |
|---|---------------------|
| Actual revenues in excess of budgeted amounts | \$ 411,677 |
| Actual expenditures less than appropriated amounts | 669,557 |
| Property tax collections exceeding (less than) net tax levy | 81,669 |
| Use of fund balance as funding source | (1,698,888) |
| Excess of prior year encumbrances over current year | (177,756) |
| Non-budgetary Revenues and Expenses: | |
| Capital Reserve Funds | 139,662 |
| Landfill Trust Fund | <u>(59,225)</u> |
| Total | <u>(\$ 633,304)</u> |

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

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

Unrestricted net position of the enterprise funds at the end of the year are \$4,404,638, a change of \$526,083 in comparison with the prior year.

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget adopted by the City Council increased by \$481,154. On September 2, 2014, the Somersworth City Council adopted Ordinance 3-14 providing a supplemental appropriation in the amount of \$180,000 for additional improvements associated with the Downtown Improvements Project. Also on September 2, 2014, the Somersworth City Council adopted Ordinance 4 -14 providing a supplemental appropriation in the amount of \$1,133,888 to provide additional funding for the High Street and Tri City Road Improvements.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets.

Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 64,184,688 (net of accumulated depreciation), a change of \$3,796,571 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 \$ 34,783,450, 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 2015 was a year of continuous improvement for the City as the Downtown Revitalization Project wrapped up, numerous businesses planned for expansions and interest in the City as a business destination grew.

The City has over 300 businesses of varying size and industry. Situated between two hospitals in neighboring communities Somersworth has over 40 businesses in the medical industry. The City also has a sizable automobile sales and service industry which is one of the areas of growth with both Hilltop Chevy and Roger's Automotive expanding their footprint.

Somersworth's manufacturing companies remain healthy with one entity showing continual growth year over year. The City also has a number of contract manufacturers that reported either incremental growth or steady state of business. Other retail and service industries in the community remained stable in 2015.

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, 2015

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|---------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 17,915,147 | | \$ 17,915,147 |
| Investments | 3,117,107 | | 3,117,107 |
| Taxes receivable, net | 1,024,049 | | 1,024,049 |
| Accounts receivable, net | 73,154 | \$ 906,512 | 979,666 |
| Remediation recovery receivable | 79,200 | | 79,200 |
| Due from other governments | 911,369 | 122,388 | 1,033,757 |
| Internal balances | (3,300,997) | 3,300,997 | - |
| Prepaid expenses | 44,281 | | 44,281 |
| Inventory | | 136,511 | 136,511 |
| Total Current Assets | <u>19,863,310</u> | <u>4,466,408</u> | <u>24,329,718</u> |
| Noncurrent Assets: | | | |
| Remediation recovery receivable | 3,190,350 | | 3,190,350 |
| Due from other governments | | 1,223,873 | 1,223,873 |
| Capital assets: | | | |
| Non-depreciable capital assets | 7,029,293 | 2,669,762 | 9,699,055 |
| Depreciable capital assets, net | <u>36,462,186</u> | <u>18,023,447</u> | <u>54,485,633</u> |
| Total Noncurrent Assets | <u>46,681,829</u> | <u>21,917,082</u> | <u>68,598,911</u> |
| Total Assets | <u>66,545,139</u> | <u>26,383,490</u> | <u>92,928,629</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pension | <u>2,410,657</u> | <u>57,660</u> | <u>2,468,317</u> |
| Total Deferred Outflows of Resources | <u>2,410,657</u> | <u>57,660</u> | <u>2,468,317</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 1,034,003 | 175,142 | 1,209,145 |
| Accrued expenses | 351,199 | 118,465 | 469,664 |
| Retainage payable | 188,941 | | 188,941 |
| Current portion of bonds payable | 2,590,010 | 1,072,212 | 3,662,222 |
| Current portion of capital leases payable | 188,201 | | 188,201 |
| 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>4,527,354</u> | <u>1,365,819</u> | <u>5,893,173</u> |
| Noncurrent Liabilities: | | | |
| Bonds payable | 19,246,004 | 11,875,224 | 31,121,228 |
| Capital leases payable | 434,145 | | 434,145 |
| Compensated absences payable | 1,779,513 | 91,510 | 1,871,023 |
| Other post-employment benefits payable | 2,891,815 | 135,700 | 3,027,515 |
| Net pension liability | 23,280,040 | 722,218 | 24,002,258 |
| Estimated pollution remediation obligation | <u>6,445,151</u> | | <u>6,445,151</u> |
| Total Noncurrent Liabilities | <u>54,076,668</u> | <u>12,824,652</u> | <u>66,901,320</u> |
| Total Liabilities | <u>58,604,022</u> | <u>14,190,471</u> | <u>72,794,493</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Property taxes collected in advance | 10,705,007 | | 10,705,007 |
| Deferred inflows related to pension | <u>2,978,701</u> | <u>100,268</u> | <u>3,078,969</u> |
| Total Deferred Inflows of Resources | <u>13,683,708</u> | <u>100,268</u> | <u>13,783,976</u> |
| NET POSITION | | | |
| Net investment in capital assets | 20,944,178 | 7,745,773 | 28,689,951 |
| Restricted | 1,232,917 | | 1,232,917 |
| Unrestricted (Deficit) | <u>(25,509,029)</u> | <u>4,404,638</u> | <u>(21,104,391)</u> |
| Total Net Position | <u>\$ (3,331,934)</u> | <u>\$ 12,150,411</u> | <u>\$ 8,818,477</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, 2015

| 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 Governmental Activities | Business-type Activities | |
| Governmental Activities: | | | | | | | |
| General government | \$ 1,835,185 | \$ 263,287 | \$ 34,208 | | \$ (1,537,690) | | \$ (1,537,690) |
| Public safety | 5,641,017 | 101,156 | 90,268 | \$ 6,000 | (5,443,593) | | (5,443,593) |
| Highways and streets | 2,088,160 | 2,768 | 197,926 | 670,510 | (1,216,956) | | (1,216,956) |
| Sanitation | 146,676 | | | | (146,676) | | (146,676) |
| Health and welfare | 263,952 | | | | (263,952) | | (263,952) |
| Culture and recreation | 441,911 | 85,261 | | | (356,650) | | (356,650) |
| Economic development | 6,617 | | | | (6,617) | | (6,617) |
| Education | 26,316,782 | 1,721,526 | 10,022,810 | | (14,572,446) | | (14,572,446) |
| Food service | 763,713 | 271,359 | 490,397 | | (1,957) | | (1,957) |
| Debt service | 571,150 | | 1,044,497 | | 473,347 | | 473,347 |
| Total governmental activities | <u>38,075,163</u> | <u>2,445,357</u> | <u>11,880,106</u> | <u>676,510</u> | <u>(23,073,190)</u> | <u>\$ -</u> | <u>(23,073,190)</u> |
| Business-type activities: | | | | | | | |
| Water | 1,945,131 | 2,427,421 | | | | 482,290 | 482,290 |
| Sewer | 2,036,529 | 2,493,927 | | 51,227 | | 508,625 | 508,625 |
| Solid waste | 390,634 | 380,785 | | | | (9,849) | (9,849) |
| Total business-type activities | <u>4,372,294</u> | <u>5,302,133</u> | <u>-</u> | <u>51,227</u> | <u>-</u> | <u>981,066</u> | <u>981,066</u> |
| Total primary government | <u>\$ 42,447,457</u> | <u>\$ 7,747,490</u> | <u>\$ 11,880,106</u> | <u>\$ 727,737</u> | <u>(23,073,190)</u> | <u>981,066</u> | <u>(22,092,124)</u> |
| General revenues: | | | | | | | |
| Property and other taxes | | | | | 23,517,691 | | 23,517,691 |
| Licenses and permits | | | | | 1,730,755 | | 1,730,755 |
| Grants and contributions: | | | | | | | |
| Rooms and meals tax distribution | | | | | 566,670 | | 566,670 |
| Interest and investment earnings | | | | | 46,835 | | 46,835 |
| Miscellaneous | | | | | 306,996 | 34,415 | 341,411 |
| Contributions to permanent fund principal | | | | | 100 | | 100 |
| Total general revenues, transfers and contributions to permanent fund principal | | | | | <u>26,169,047</u> | <u>34,415</u> | <u>26,203,462</u> |
| Change in net position | | | | | 3,095,857 | 1,015,481 | 4,111,338 |
| Net position - beginning, as restated | | | | | <u>(6,427,791)</u> | <u>11,134,930</u> | <u>4,707,139</u> |
| Net position - ending | | | | | <u>\$ (3,331,934)</u> | <u>\$ 12,150,411</u> | <u>\$ 8,818,477</u> |

See accompanying notes to the basic financial statements

EXHIBIT C
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2015

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|-----------------------------------|--------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 17,728,868 | \$ 186,279 | \$ 17,915,147 |
| Investments | 2,637,000 | 480,107 | 3,117,107 |
| Taxes receivable, net | 1,024,049 | | 1,024,049 |
| Accounts receivable | 35,424 | 37,730 | 73,154 |
| Due from other governments | 117,282 | 794,087 | 911,369 |
| Due from other funds | 666,834 | 1,158,830 | 1,825,664 |
| Prepaid expenses | 44,281 | | 44,281 |
| Total Assets | <u>22,253,738</u> | <u>2,657,033</u> | <u>24,910,771</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Total Deferred Outflows of Resources | - | - | - |
| Total Assets and Deferred Outflows of Resources | <u>\$ 22,253,738</u> | <u>\$ 2,657,033</u> | <u>\$ 24,910,771</u> |
| LIABILITIES | | | |
| Accounts payable | \$ 666,139 | \$ 268,015 | \$ 934,154 |
| Accrued expenses | 136,479 | 492 | 136,971 |
| Retainage payable | | 188,941 | 188,941 |
| Due to other funds | 4,545,176 | 681,334 | 5,226,510 |
| Total Liabilities | <u>5,347,794</u> | <u>1,138,782</u> | <u>6,486,576</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Property taxes collected in advance | 10,705,007 | | 10,705,007 |
| Unearned property tax revenue | 843,570 | | 843,570 |
| Total Deferred Inflows of Resources | <u>11,548,577</u> | <u>-</u> | <u>11,548,577</u> |
| FUND BALANCES | | | |
| Nonspendable | 44,281 | 208,411 | 252,692 |
| Restricted | 210,976 | 813,530 | 1,024,506 |
| Committed | 630,867 | 496,310 | 1,127,177 |
| Assigned | 588,503 | | 588,503 |
| Unassigned | 3,882,740 | | 3,882,740 |
| Total Fund Balances | <u>5,357,367</u> | <u>1,518,251</u> | <u>6,875,618</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 22,253,738</u> | <u>\$ 2,657,033</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 | | | 43,491,479 |
| Other long-term assets are not available to pay current period expenditures, and therefore, are not reported in governmental funds | | | 3,269,550 |
| Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis | | | 843,570 |
| Deferred outflows of resources and deferred inflows of resources that do not provide or require the use of current financial resources are not reported within the funds. | | | |
| Deferred outflow of resources attributable to net pension liability | | | 2,410,657 |
| Deferred inflow of resources attributable to net pension liability | | | (2,978,701) |
| 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 | | | (21,836,014) |
| Capital leases payable | | | (622,346) |
| Accrued interest on long-term obligations | | | (214,228) |
| Compensated absences payable | | | (1,794,513) |
| Other post-employment benefits payable | | | (2,891,815) |
| Net pension liability | | | (23,280,040) |
| Estimated pollution remediation obligation | | | (6,605,151) |
| Net position of governmental activities | | | <u>\$ (3,331,934)</u> |

See accompanying notes to the basic financial statements

EXHIBIT D
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|-----------------------------------|--------------------------------|
| Revenues: | | | |
| Taxes | \$ 23,599,360 | | \$ 23,599,360 |
| Licenses and permits | 1,669,565 | \$ 61,190 | 1,730,755 |
| Intergovernmental | 10,471,945 | 2,651,341 | 13,123,286 |
| Charges for services | 1,813,082 | 632,275 | 2,445,357 |
| Interest and investment income | 43,026 | 3,809 | 46,835 |
| Miscellaneous | 364,389 | 21,907 | 386,296 |
| Total Revenues | <u>37,961,367</u> | <u>3,370,522</u> | <u>41,331,889</u> |
| Expenditures: | | | |
| Current operations: | | | |
| General government | 1,664,640 | 15,116 | 1,679,756 |
| Public safety | 5,369,789 | 52,683 | 5,422,472 |
| Highways and streets | 2,147,278 | 500,005 | 2,647,283 |
| Sanitation | 306,676 | | 306,676 |
| Health and welfare | 265,263 | | 265,263 |
| Culture and recreation | 373,863 | 17,497 | 391,360 |
| Economic development | 6,617 | | 6,617 |
| Education | 23,575,330 | 1,593,969 | 25,169,299 |
| Food service | | 763,713 | 763,713 |
| Capital outlay | 260,683 | 4,266,650 | 4,527,333 |
| Debt service: | | | |
| Principal retirement | 2,573,424 | | 2,573,424 |
| Interest and fiscal charges | 674,203 | | 674,203 |
| Total Expenditures | <u>37,217,766</u> | <u>7,209,633</u> | <u>44,427,399</u> |
| Excess revenues over (under) expenditures | <u>743,601</u> | <u>(3,839,111)</u> | <u>(3,095,510)</u> |
| Other financing sources (uses): | | | |
| Proceeds from bond issuance | | 1,864,500 | 1,864,500 |
| Bond premium | | 245,500 | 245,500 |
| Transfers in | 128,515 | 1,505,420 | 1,633,935 |
| Transfers out | (1,505,420) | (128,515) | (1,633,935) |
| Total other financing sources (uses) | <u>(1,376,905)</u> | <u>3,486,905</u> | <u>2,110,000</u> |
| Net change in fund balances | (633,304) | (352,206) | (985,510) |
| Fund balances at beginning of year, as restated | <u>5,990,671</u> | <u>1,870,457</u> | <u>7,861,128</u> |
| Fund balances at end of year | <u>\$ 5,357,367</u> | <u>\$ 1,518,251</u> | <u>\$ 6,875,618</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, 2015

| | |
|---|---------------------|
| Net Change in Fund Balances--Total Governmental Funds | \$ (985,510) |
| 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. | 3,567,106 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (81,669) |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | 2,355,855 |
| 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. | 217,569 |
| Proceeds from bond issuance are other financing sources in the funds, but bond issuance increases long-term liabilities in the statement of net position. | (2,110,000) |
| 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. | 107,382 |
| 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. | (4,329) |
| 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 report pension contributions as expenditures. However, in the statement of activities, pension expense reflects the change in the net pension liability and related deferred outflows and inflows of resources, and do not require the use of current financial resources. This is the amount by which pension contributions exceeded pension expense in the current period. | 417,249 |
| 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. | (308,596) |
| Change in Net Position of Governmental Activities | <u>\$ 3,095,857</u> |

See accompanying notes to the basic financial statements

EXHIBIT E
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
June 30, 2015

| | Business-type Activities | | | |
|--|--------------------------|---------------------|------------------|----------------------|
| | Water Fund | Sewer Fund | Nonmajor Fund | Totals |
| ASSETS | | | | |
| Current Assets: | | | | |
| Accounts receivable, net | \$ 475,597 | \$ 421,228 | \$ 9,687 | \$ 906,512 |
| Due from other governments | | 122,388 | | 122,388 |
| Due from other funds | 1,845,200 | 1,415,238 | 40,559 | 3,300,997 |
| Inventory | 104,878 | | 31,633 | 136,511 |
| Total Current Assets | <u>2,425,675</u> | <u>1,958,854</u> | <u>81,879</u> | <u>4,466,408</u> |
| Noncurrent Assets: | | | | |
| Due from other governments | | 1,223,873 | | 1,223,873 |
| Capital assets: | | | | |
| Non-depreciable capital assets | 1,488,361 | 1,181,401 | | 2,669,762 |
| Depreciable capital assets, net | 5,940,240 | 12,083,207 | | 18,023,447 |
| Total Noncurrent Assets | <u>7,428,601</u> | <u>14,488,481</u> | <u>-</u> | <u>21,917,082</u> |
| Total Assets | <u>9,854,276</u> | <u>16,447,335</u> | <u>81,879</u> | <u>26,383,490</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred outflows related to pension | <u>26,826</u> | <u>30,834</u> | | <u>57,660</u> |
| Total Deferred Outflows of Resources | <u>26,826</u> | <u>30,834</u> | <u>-</u> | <u>57,660</u> |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 70,183 | 71,960 | 32,999 | 175,142 |
| Accrued expenses | 92,168 | 26,297 | | 118,465 |
| Current portion of bonds payable | 470,332 | 601,880 | | 1,072,212 |
| Total Current Liabilities | <u>632,683</u> | <u>700,137</u> | <u>32,999</u> | <u>1,365,819</u> |
| Noncurrent Liabilities: | | | | |
| Bonds payable | 5,837,459 | 6,037,765 | | 11,875,224 |
| Compensated absences payable | 45,630 | 45,880 | | 91,510 |
| Other post-employment benefits payable | 81,411 | 54,289 | | 135,700 |
| Net pension liability | 378,626 | 343,592 | | 722,218 |
| Total Noncurrent Liabilities | <u>6,343,126</u> | <u>6,481,526</u> | <u>-</u> | <u>12,824,652</u> |
| Total Liabilities | <u>6,975,809</u> | <u>7,181,663</u> | <u>32,999</u> | <u>14,190,471</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred inflows related to pension | <u>52,566</u> | <u>47,702</u> | | <u>100,268</u> |
| Total Deferred Inflows of Resources | <u>52,566</u> | <u>47,702</u> | <u>-</u> | <u>100,268</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 1,120,810 | 6,624,963 | | 7,745,773 |
| Unrestricted | 1,731,917 | 2,623,841 | 48,880 | 4,404,638 |
| Total Net Position | <u>\$ 2,852,727</u> | <u>\$ 9,248,804</u> | <u>\$ 48,880</u> | <u>\$ 12,150,411</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, 2015

| | Business-type Activities | | | |
|--|--------------------------|---------------------|------------------|----------------------|
| | Water Fund | Sewer Fund | Nonmajor Fund | Totals |
| Operating revenues: | | | | |
| Charges for services | \$ 2,427,421 | \$ 2,493,927 | \$ 380,785 | \$ 5,302,133 |
| Miscellaneous | 28,457 | 5,958 | | 34,415 |
| Total operating revenues | <u>2,455,878</u> | <u>2,499,885</u> | <u>380,785</u> | <u>5,336,548</u> |
| Operating expenses: | | | | |
| Personnel services | 464,279 | 474,704 | | 938,983 |
| Contractual services | 79,266 | 204,613 | 340,802 | 624,681 |
| Repairs and maintenance | 239,941 | 64,878 | | 304,819 |
| Administration | 78,307 | 72,079 | 186 | 150,572 |
| Materials and supplies | 191,876 | 133,761 | 49,646 | 375,283 |
| Utilities | 172,134 | 189,473 | | 361,607 |
| Depreciation | 426,071 | 650,116 | | 1,076,187 |
| Miscellaneous | 58,738 | 55,000 | | 113,738 |
| Total operating expenses | <u>1,710,612</u> | <u>1,844,624</u> | <u>390,634</u> | <u>3,945,870</u> |
| Operating income (loss) | <u>745,266</u> | <u>655,261</u> | <u>(9,849)</u> | <u>1,390,678</u> |
| Non-operating (expenses): | | | | |
| Interest expense | <u>(234,519)</u> | <u>(191,905)</u> | | <u>(426,424)</u> |
| Total non-operating (expenses) | <u>(234,519)</u> | <u>(191,905)</u> | <u>-</u> | <u>(426,424)</u> |
| Income (loss) before capital contributions | 510,747 | 463,356 | (9,849) | 964,254 |
| Capital contributions | | <u>51,227</u> | | <u>51,227</u> |
| Change in net position | 510,747 | 514,583 | (9,849) | 1,015,481 |
| Total net position at beginning of year, as restated | <u>2,341,980</u> | <u>8,734,221</u> | <u>58,729</u> | <u>11,134,930</u> |
| Total net position at end of year | <u>\$ 2,852,727</u> | <u>\$ 9,248,804</u> | <u>\$ 48,880</u> | <u>\$ 12,150,411</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, 2015

| | Business-type Activities | | | |
|--|--------------------------|---------------------|--------------------|---------------------|
| | Water Fund | Sewer Fund | Nonmajor Fund | Totals |
| Cash flows from operating activities: | | | | |
| Cash received from customers | \$ 2,325,366 | \$ 2,500,187 | \$ 379,656 | \$ 5,205,209 |
| Cash paid to suppliers | (950,852) | (874,130) | (391,918) | (2,216,900) |
| Cash paid to employees | (280,044) | (288,307) | | (568,351) |
| Net cash provided (used) by operating activities | <u>1,094,470</u> | <u>1,337,750</u> | <u>(12,262)</u> | <u>2,419,958</u> |
| Cash flows from capital financing activities: | | | | |
| Purchases of capital assets | (950,814) | (642,103) | | (1,592,917) |
| Capital contributions | | 173,615 | | 173,615 |
| Proceeds from bonds issued | 110,000 | | | 110,000 |
| Principal paid on long-term debt | (433,848) | 580,341 | | 146,493 |
| Interest paid on long-term debt | (231,421) | (221,732) | | (453,153) |
| Net cash (used) for capital financing activities | <u>(1,506,083)</u> | <u>(109,879)</u> | <u>-</u> | <u>(1,615,962)</u> |
| Net increase (decrease) in cash and cash equivalents | (411,613) | 1,227,871 | (12,262) | 803,996 |
| Cash and cash equivalents at beginning of year | <u>2,256,813</u> | <u>1,348,049</u> | <u>52,821</u> | <u>3,657,683</u> |
| Cash and cash equivalents at end of year | <u>\$ 1,845,200</u> | <u>\$ 2,575,920</u> | <u>\$ 40,559</u> | <u>\$ 4,461,679</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Operating income (loss) | \$ 745,266 | \$ 655,261 | \$ (9,849) | \$ 1,390,678 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation expense | 426,071 | 650,116 | | 1,076,187 |
| Change in deferred outflows related to pension | 5,899 | (1,137) | | 4,762 |
| Change in deferred inflows related to pension | 52,566 | 47,702 | | 100,268 |
| Changes in assets and liabilities: | | | | |
| Accounts receivable, net | (130,512) | 302 | (1,129) | (131,339) |
| Inventory | 5,728 | | (7,806) | (2,078) |
| Accounts payable | 25,472 | 20,735 | 6,522 | 52,729 |
| Accrued expenses | 2,086 | 1,779 | | 3,865 |
| Compensated absences payable | 16,048 | 7,097 | | 23,145 |
| Other post-employment benefits payable | 6,360 | 10,810 | | 17,170 |
| Net pension liability | (60,514) | (54,915) | | (115,429) |
| Net cash provided (used) by operating activities | <u>\$ 1,094,470</u> | <u>\$ 1,337,750</u> | <u>\$ (12,262)</u> | <u>\$ 2,419,958</u> |
| Supplemental disclosure of non-cash transactions: | | | | |
| Amortization on bond premiums | <u>\$ 20,495</u> | <u>\$ 28,673</u> | <u>\$ -</u> | <u>\$ 49,168</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, 2015

| | Private- Purpose <u>Trust Funds</u> | Agency <u>Funds</u> |
|---------------------------------------|---|------------------------|
| ASSETS | | |
| Cash and cash equivalents | | \$ 188,467 |
| Investments | \$ 180,400 | |
| Due from other funds | | 99,849 |
| Total Assets | <u>180,400</u> | <u>\$ 288,316</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Total Deferred Outflows of Resources | <u>-</u> | |
| LIABILITIES | | |
| Accounts payable | | \$ 6,891 |
| Due to student groups | | 83,763 |
| Deposits | | 197,662 |
| Total Liabilities | <u>-</u> | <u>\$ 288,316</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Total Deferred Inflows of Resources | <u>-</u> | |
| NET POSITION | | |
| Held in trust | <u>180,400</u> | |
| Total Net Position | <u>\$ 180,400</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, 2015

| | <u>Private- Purpose Trust Funds</u> |
|---|---|
| ADDITIONS: | |
| Investment earnings: | |
| Interest | \$ 4,339 |
| Realized gains on investments | 409 |
| Net decrease in the fair value of investments | <u>(3,226)</u> |
| Total Investment Earnings | <u>1,522</u> |
| Total Additions | <u>1,522</u> |
| DEDUCTIONS: | |
| Benefits | <u>7,681</u> |
| Total Deductions | <u>7,681</u> |
| Change in net position | (6,159) |
| Net position - beginning of year | <u>186,559</u> |
| Net position - end of year | <u>\$ 180,400</u> |

See accompanying notes to the basic financial statements

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

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, 2015

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.

2. Proprietary Funds:

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

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

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

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

3. Fiduciary Funds:

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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. 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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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 year end: 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 received before the eligibility requirements are met are recorded as advances from grantors. On governmental fund financial statements, receivables that will not be collected within the available period have 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, 2015, the City applied \$385,000 of its unappropriated fund balance to reduce taxes.

Cash and Cash Equivalents

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

| | <u>Due from other funds</u> |
|--------------------|---------------------------------|
| Proprietary Funds: | |
| Water Fund | \$ 1,845,200 |
| Sewer Fund | 1,415,238 |
| Nonmajor Fund | <u>40,559</u> |
| | <u>\$ 3,300,997</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, 2015 are recorded as receivables net of reserves for estimated uncollectibles of \$63,386 and \$49,022 in the Water Fund and Sewer Fund, respectively.

Taxes Receivable

Taxes levied during the current fiscal year and prior and uncollected at June 30, 2015 are recorded as receivables net of reserves for estimated uncollectibles of \$188,000.

Inventory

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

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

Capital Assets

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

All capital assets including infrastructure and intangible assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their 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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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

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

Compensated Absences and Retirement Benefits

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

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

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

Bond Premium

Bond premiums are amortized as a component of interest expense over the 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, 2015 are \$1,372,533 and \$307,558 in the governmental and business-type activities, respectively.

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.

Pensions

During the year ended June 30, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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

Net Position

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

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

Fund Balance Policy

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

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

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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, the liability for other post-employment benefits and the City's net pension liability.

NOTE 2—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$833,520,920 as of April 1, 2014) and are due in two installments on July 1, 2014 and December 12, 2014. 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).

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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 \$2,373,324 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, 2015, 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, 2015.

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, 2015

NOTE 4—DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

| | |
|--------------------------------------|----------------------|
| Statement of net position: | |
| Cash and cash equivalents | \$ 17,915,147 |
| Investments | 3,117,107 |
| Statement of fiduciary net position: | |
| Cash and cash equivalents | 188,467 |
| Investments | <u>180,400</u> |
| Total deposits and investments | <u>\$ 21,401,121</u> |

Deposits and investments as of June 30, 2015 consist of the following:

| | |
|--------------------------------------|----------------------|
| Cash on hand | \$ 505 |
| Deposits with financial institutions | 20,109,032 |
| Investments | <u>1,291,584</u> |
| Total deposits and investments | <u>\$ 21,401,121</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, 2015, the investment in the NHPDIP was rated AAA. No other investments were rated.

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

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

Of the City's deposits with financial institutions at year end, \$19,457,422 was collateralized by securities held by the bank in the bank's name. As of June 30, 2015, 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 | | \$ 1,086,386 |
| Money market mutual funds | | <u>66,655</u> |
| | | <u>\$ 1,153,041</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 7/1/2014</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 6/30/2015</u> |
|--|-----------------------------|---------------------|--------------------|------------------------------|
| Governmental activities: | | | | |
| Capital assets not depreciated: | | | | |
| Land | \$ 2,272,916 | | | \$ 2,272,916 |
| Easements | 170,875 | | | 170,875 |
| Construction in process | <u>1,892,697</u> | <u>\$ 2,743,005</u> | <u>\$ (50,200)</u> | <u>4,585,502</u> |
| Total capital assets not being depreciated | <u>4,336,488</u> | <u>2,743,005</u> | <u>(50,200)</u> | <u>7,029,293</u> |

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

Other capital assets:

| | | | | |
|---|----------------------|---------------------|--------------------|----------------------|
| Infrastructure | 8,192,166 | 2,292,920 | | 10,485,086 |
| Buildings and improvements | 45,284,044 | 223,194 | | 45,507,238 |
| Vehicles and equipment | 6,291,669 | 189,163 | (29,578) | 6,451,254 |
| Total other capital assets at historical cost | <u>59,767,879</u> | <u>2,705,277</u> | <u>(29,578)</u> | <u>62,443,578</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (2,297,014) | (216,755) | | (2,513,769) |
| Buildings and improvements | (17,573,748) | (1,257,618) | | (18,831,366) |
| Vehicles and equipment | (4,309,232) | (356,603) | 29,578 | (4,636,257) |
| Total accumulated depreciation | <u>(24,179,994)</u> | <u>(1,830,976)</u> | <u>29,578</u> | <u>(25,981,392)</u> |
| Total other capital assets, net | <u>35,587,885</u> | <u>874,301</u> | <u>-</u> | <u>36,462,186</u> |
| Total capital assets, net | <u>\$ 39,924,373</u> | <u>\$ 3,617,306</u> | <u>\$ (50,200)</u> | <u>\$ 43,491,479</u> |

Depreciation was charged to governmental functions as follows:

| | |
|--|---------------------|
| General government | \$ 92,323 |
| Public safety | 265,216 |
| Highways and streets | 377,972 |
| Culture and recreation | 22,798 |
| Education | 1,072,667 |
| Total governmental activities depreciation expense | <u>\$ 1,830,976</u> |

The balance of the assets acquired through capital leases as of June 30, 2015 is as follows:

| | |
|--------------------------------|-------------------|
| Vehicles and equipment | \$ 1,182,841 |
| Less accumulated depreciation: | |
| Vehicles and equipment | <u>(349,068)</u> |
| | <u>\$ 833,773</u> |

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

| | Balance 7/1/2014 | Additions | Reductions | Balance 6/30/2015 |
|---|---------------------|------------------|-------------|----------------------|
| Business-type activities: | | | | |
| Capital asset not depreciated: | | | | |
| Land | \$ 500,895 | | | \$ 500,895 |
| Construction in process | 1,087,400 | \$ 1,081,467 | | 2,168,867 |
| Total capital assets not being depreciated | <u>1,588,295</u> | <u>1,081,467</u> | <u>\$ -</u> | <u>2,669,762</u> |
| Other capital assets: | | | | |
| Infrastructure | 10,767,936 | 95,500 | | 10,863,436 |
| Buildings and improvements | 25,942,226 | 118,244 | | 26,060,470 |
| Vehicles and equipment | 918,095 | 10,441 | | 928,536 |
| Total other capital assets at historical cost | <u>37,628,257</u> | <u>224,185</u> | <u>-</u> | <u>37,852,442</u> |

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

Less accumulated depreciation for:

| | | | | |
|---------------------------------|----------------------|--------------------|-------------|----------------------|
| Infrastructure | (6,002,080) | (222,212) | | (6,224,292) |
| Buildings and improvements | (12,097,814) | (805,671) | | (12,903,485) |
| Vehicles and equipment | (652,914) | (48,304) | | (701,218) |
| Total accumulated depreciation | <u>(18,752,808)</u> | <u>(1,076,187)</u> | <u>-</u> | <u>(19,828,995)</u> |
| Total other capital assets, net | <u>18,875,449</u> | <u>(852,002)</u> | <u>-</u> | <u>18,023,447</u> |
| Total capital assets, net | <u>\$ 20,463,744</u> | <u>\$ 229,465</u> | <u>\$ -</u> | <u>\$ 20,693,209</u> |

Depreciation was charged to proprietary funds as follows:

| | |
|---|---------------------|
| Water fund | \$ 426,071 |
| Sewer fund | <u>650,116</u> |
| Total Business-type activities depreciation expense | <u>\$ 1,076,187</u> |

NOTE 6—DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the New Hampshire Retirement System (NHRS), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The New Hampshire Retirement System is a public employee retirement system that administers a single cost-sharing multiple-employer defined benefit pension plan. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature.

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

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

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

Benefits Provided

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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

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

Funding Policy

Covered police officers and fire employees are required to contribute 11.55% and 11.80%, respectively of their covered salary, whereas teachers and general employees are required to contribute 7.0% of their covered salary. The City is required to contribute at an actuarially determined rate. The City's contribution rates for the covered payroll of police officers, fire employees, teachers, and general employees were 21.35%, 23.79%, 11.96%, and 10.44%, respectively. The City contributes 100% of the employer cost for police officers, fire employees, teachers, and general employees of the City.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The City's contributions to the NHRS for the year ending June 30, 2015 was \$2,127,336.

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

At June 30, 2015, the City reported a liability of \$24,002,258 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013. The City's proportion of the net pension liability was based on actual contributions by the City during the relevant fiscal year relative to the actual contributions of all participating plan members, excluding contributions to separately finance specific liabilities of individual employers or NHRS. At June 30, 2014, the City's proportion was approximately 0.6394 percent, which was an increase of 0.0094 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$1,699,688. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Net difference between projected and actual earnings on pension plan investments | | \$ 3,071,109 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | \$ 340,981 | 7,860 |
| City contributions subsequent to the measurement date | <u>2,127,336</u> | <u> </u> |
| Totals | <u>\$ 2,468,317</u> | <u>\$ 3,078,969</u> |

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions is reflected as a decrease to unrestricted net position in the amount of \$610,652. The City reported \$2,127,336 as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended <u>June 30,</u> | |
|-------------------------------|-----------------------|
| 2015 | \$ (695,480) |
| 2016 | (695,480) |
| 2017 | (695,478) |
| 2018 | (695,479) |
| 2019 | <u>43,929</u> |
| | <u>\$ (2,737,988)</u> |

Actuarial Assumptions

The total pension liability in the July 1, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 3.0 percent |
| Wage inflation | 3.75 percent |
| Salary increases | 5.8 percent, average, including inflation |
| Investment rate of return | 7.75 percent, net of pension plan investment expense, including inflation |

Mortality rates were based on the RP-2000 mortality table projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

Retirement rates were based on a table of rates that are specific to the type of eligibility condition, last updated in 2011 pursuant to an experience study of the period 2005-2010.

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Weighted Average Long-Term Expected Real Rate of Return (Net of inflation assumption of 3.0%)</u> |
|----------------------|--------------------------|--|
| Fixed income | 25% | (1.75)-2.0% |
| Domestic equity | 30% | 3.3% |
| International equity | 20% | 4.25-6.5% |
| Real estate | 10% | 3.3% |
| Private equity | 5% | 5.8% |
| Private debt | 5% | 5.0% |
| Opportunistic | 5% | 2.5% |
| Total | <u>100%</u> | |

Discount Rate

The discount rate used to measure the collective pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the collective pension liability.

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the single discount rate:

| | <u>1% Decrease (6.75%)</u> | <u>Current Discount Rate (7.75%)</u> | <u>1% Increase (8.75%)</u> |
|---|--------------------------------|--|--------------------------------|
| City's proportionate share of the net pension liability | \$ 31,614,879 | \$ 24,002,258 | \$ 17,579,872 |

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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.

Annual OPEB Costs

The City's fiscal 2015 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, 2015 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) | 105,761 |
| NOO amortization adjustment to ARC | <u>(152,905)</u> |
| Annual OPEB cost | 838,716 |
| Contributions made | <u>(455,236)</u> |
| Increase in Net OPEB obligation | 383,480 |
| Net OPEB obligation - beginning of year | <u>2,644,035</u> |
| Net OPEB obligation - end of year | <u><u>\$ 3,027,515</u></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, 2015, 2014 and 2013 are as follows:

| Fiscal Year <u>Ended</u> | Annual OPEB Cost | Percentage of OPEB Cost <u>Contributed</u> | Net OPEB <u>Obligation</u> |
|--------------------------------|---------------------|--|-------------------------------|
| 6/30/2015 | \$ 838,716 | 54.28% | \$ 3,027,515 |
| 6/30/2014 | \$ 847,707 | 40.52% | \$ 2,644,035 |
| 6/30/2013 | \$ 721,232 | 53.18% | \$ 2,139,824 |

The City's net OPEB obligation as of June 30, 2015 is recognized as a liability in these financial statements.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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 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 prior year. These borrowings were to assist in the payment of infrastructure improvements in the downtown area and replacement of five HVAC units in school buildings and were guaranteed to be repaid from the bond proceeds.

The changes in the City's short-term obligations for the year ended June 30, 2015 are as follows:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

| | |
|-------------------------|-------------|
| Balance - July 1, 2014 | \$ 470,824 |
| Additions | - |
| Reductions | (470,824) |
| Balance - June 30, 2015 | <u>\$ -</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, 2015 are as follows:

| | <u>Balance</u> <u>7/1/2014</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>6/30/2015</u> | <u>Due Within</u> <u>One Year</u> |
|--------------------------------|-----------------------------------|---------------------|-----------------------|------------------------------------|--------------------------------------|
| Governmental activities: | | | | | |
| Bonds payable | \$ 20,669,272 | \$ 1,864,500 | \$ (2,070,291) | \$ 20,463,481 | \$ 2,469,882 |
| Unamortized bond premium | 1,234,415 | 245,500 | (107,382) | 1,372,533 | 120,128 |
| Total Bonds payable | 21,903,687 | 2,110,000 | (2,177,673) | 21,836,014 | 2,590,010 |
| Capital leases payable | 839,915 | | (217,569) | 622,346 | 188,201 |
| Compensated absences | 1,692,227 | 402,486 | (300,200) | 1,794,513 | 15,000 |
| Total governmental activities | <u>\$ 24,435,829</u> | <u>\$ 2,512,486</u> | <u>\$ (2,695,442)</u> | <u>\$ 24,252,873</u> | <u>\$ 2,793,211</u> |
| Business-type activities: | | | | | |
| Bonds payable | \$ 13,558,567 | \$ 95,500 | \$ (1,014,189) | \$ 12,639,878 | \$ 1,025,644 |
| Unamortized bond premium | 342,226 | 14,500 | (49,168) | 307,558 | 46,568 |
| Total Bonds payable | 13,900,793 | 110,000 | (1,063,357) | 12,947,436 | 1,072,212 |
| Compensated absences | 68,365 | 23,145 | - | 91,510 | |
| Total business-type activities | <u>\$ 13,969,158</u> | <u>\$ 133,145</u> | <u>\$ (1,063,357)</u> | <u>\$ 13,038,946</u> | <u>\$ 1,072,212</u> |

Payments on the general obligation bonds and capital leases of the governmental activities are paid out of the General Fund. Payments on the general obligation bonds 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, 2015 are comprised of the following individual issues:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

| | Original Issue <u>Amount</u> | Interest <u>Rate</u> | Final Maturity <u>Date</u> | Balance at <u>6/30/15</u> |
|------------------------------------|------------------------------------|-------------------------|----------------------------------|---------------------------------|
| 1999 High Street Corridor bonds | \$ 1,300,000 | 4.5-5.25% | August 2019 | \$ 325,000 |
| 2000 New City Hall bonds | 1,400,000 | 4.75-5.25% | January 2021 | 450,000 |
| 2001 Landfill Cleanup bonds | 750,000 | 4.125-4.80% | August 2016 | 100,000 |
| 2001 New City Hall bonds | 450,000 | 4.125-4.80% | August 2016 | 60,000 |
| 2005 Capital Improvement bonds | 1,395,355 | 4.0-5.0% | August 2015 | 137,900 |
| 2006 Police Station bonds | 3,426,127 | 4.0-5.0% | August 2021 | 1,590,000 |
| 1996 School Bond bonds | 5,300,000 | 5.625-5.75% | August 2016 | 530,000 |
| 1999 Kindergarten bonds | 310,000 | 4.50-5.25% | August 2019 | 75,000 |
| 2008 School land bonds | 1,338,545 | 4.00-5.25% | August 2018 | 530,000 |
| 2009 School bonds | 18,953,000 | 3.73% | January 2030 | 12,595,956 |
| 2014 School HVAC bonds | 2,365,550 | 4.1-5.60% | August 2028 | 575,250 |
| 2014 Downtown Improvement bonds | 2,365,550 | 4.1-5.60% | August 2028 | 1,629,875 |
| 2015 Downtown Improvement bonds | 441,000 | 2.50% | August 2029 | 441,000 |
| 2015 High Street Improvement bonds | 859,500 | 2.50% | August 2024 | 859,500 |
| 2015 School HVAC bonds | 459,000 | 2.50% | August 2029 | 459,000 |
| 2015 School HVAC bonds | 105,000 | 2.50% | August 2024 | 105,000 |
| Totals | | | | 20,463,481 |
| | Add: Unamortized bond premium | | | 1,372,533 |
| | | | | <u>\$ 21,836,014</u> |

Debt service requirements to retire general obligation bonds outstanding at June 30, 2015 are as follows:

| Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|----------------------|----------------------|----------------------|
| 2016 | \$ 2,469,882 | \$ 676,129 | \$ 3,146,011 |
| 2017 | 2,248,277 | 658,738 | 2,907,015 |
| 2018 | 1,853,136 | 649,710 | 2,502,846 |
| 2019 | 1,807,491 | 650,345 | 2,457,836 |
| 2020 | 1,633,755 | 656,937 | 2,290,692 |
| 2021-2025 | 6,250,188 | 3,444,224 | 9,694,412 |
| 2026-2030 | 4,200,752 | 3,990,798 | 8,191,550 |
| Total | 20,463,481 | 10,726,881 | 31,190,362 |
| Add: <i>Bond Premium</i> | 1,372,533 | | 1,372,533 |
| Total | <u>\$ 21,836,014</u> | <u>\$ 10,726,881</u> | <u>\$ 32,562,895</u> |

Business-type Activities

Bonds payable at June 30, 2015 are comprised of the following individual issues:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

| | Original Issue Amount | Interest Rate | Maturity Date | Balance at 6/30/15 |
|-------------------------------------|-------------------------------|------------------|------------------|--------------------------|
| <u>Water Fund:</u> | | | | |
| Water High Lift Project bonds | \$ 650,000 | 3.4725% | October 2016 | \$ 86,667 |
| Water treatment plant upgrade bonds | 1,843,500 | 4.25-5.25% | January 2028 | 1,180,000 |
| Water treatment plant bonds | 5,000,000 | 3.488% | April 2028 | 3,699,698 |
| Downtown Improvement bonds | 1,188,946 | 4.1-5.60% | August 2028 | 1,108,315 |
| High Street Improvement bonds | 95,500 | 2.50% | August 2024 | 95,500 |
| | | | | 6,170,180 |
| | Add: Unamortized bond premium | | | 137,611 |
| | | | | 6,307,791 |
| <u>Sewer Fund:</u> | | | | |
| Wastewater refunding bonds | \$ 7,810,000 | 2.0-4.0% | January 2026 | 5,525,000 |
| Wastewater treatment facility bonds | 524,944 | 2.952% | January 2029 | 423,138 |
| Downtown Improvement bonds | 559,504 | 4.1-5.60% | August 2028 | 521,560 |
| | | | | 6,469,698 |
| | Add: Unamortized bond premium | | | 169,947 |
| | | | | 6,639,645 |
| | | | | <u>\$ 12,947,436</u> |

Debt service requirements to retire general obligation bonds for business-type activities at June 30, 2015 are as follows:

| Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|----------------------|---------------------|----------------------|
| 2016 | \$ 1,025,645 | \$ 368,564 | \$ 1,394,209 |
| 2017 | 1,038,582 | 412,797 | 1,451,379 |
| 2018 | 993,977 | 374,947 | 1,368,924 |
| 2019 | 998,005 | 344,765 | 1,342,770 |
| 2020 | 1,002,345 | 309,563 | 1,311,908 |
| 2021-2025 | 5,108,474 | 1,027,011 | 6,135,485 |
| 2026-2030 | 2,472,850 | 184,457 | 2,657,307 |
| Total | 12,639,878 | 3,022,104 | 15,661,982 |
| Add: <i>Bond Premium</i> | 307,558 | | 307,558 |
| Total | <u>\$ 12,947,436</u> | <u>\$ 3,022,104</u> | <u>\$ 15,969,540</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, 2015, the reimbursement was \$173,615 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, 2015:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

| | |
|--|-------------------|
| Equipment due in annual installments of \$30,980, including interest of 3.40%, through December 2016 | \$ 58,934 |
| Equipment due in annual installments of \$66,390, including interest at 1.57%, through February 2019 | 255,462 |
| Vehicle due in annual installments of \$72,587, including interest at 1.57%, through March 2019 | 279,311 |
| Equipment due in annual installments of \$29,926, including interest at 4.374%, through October 2015 | <u>28,639</u> |
| | <u>\$ 622,346</u> |

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2015 are as follows:

| Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|-------------------|------------------|-------------------|
| 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>\$ 622,346</u> | <u>\$ 25,449</u> | <u>\$ 647,795</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). The EPA concluded the City's landfill contained fourteen contaminants that had a principal threat to human health and the environment and were in violation of various Federal and State drinking water acts. From the proposed remedial action alternatives, included in the Feasibility Study prepared by the City and other potentially responsible parties in 1993, the EPA selected a remedy that provides treatment of contaminated overburden and bedrock ground water with flushing of contamination from the source area. The key element of this process is the construction of a permeable treatment wall composed of impermeable barrier sections and innovative, permeable, chemical treatment sections to provide in-situ, flow-through treatment of contaminated ground water at 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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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, 2015, the City estimates the pollution remediation obligation to be \$6,605,151 and estimated recoveries from the potentially responsible party of \$3,269,550. The estimated obligation was calculated using the expected cash flow technique measured at 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, 2015:

| | Pollution Remediation <u>Obligation</u> | Remediation Recovery <u>Receivable</u> |
|--|---|--|
| Balance - July 1, 2014 | \$ 6,765,151 | \$ 3,348,750 |
| Expenditures recognized in the General Fund | (140,441) | |
| Reimbursement from third party | | (69,518) |
| Net change in estimated remediation obligation/ recovery receivable | (19,559) | (9,682) |
| Balance - June 30, 2015 | <u>\$ 6,605,151</u> | <u>\$ 3,269,550</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, 2015 are as follows:

| | Due from | | |
|-----------------------------|------------------------|--|---------------------|
| | General <u>Fund</u> | Nonmajor Governmental <u>Funds</u> | <u>Totals</u> |
| General Fund | | \$ 666,834 | \$ 666,834 |
| Nonmajor Governmental Funds | \$ 1,158,830 | | 1,158,830 |
| Water Fund | 1,830,700 | 14,500 | 1,845,200 |
| Sewer Fund | 1,415,238 | | 1,415,238 |
| Nonmajor Enterprise Fund | 40,559 | | 40,559 |
| Agency Funds | 99,849 | | 99,849 |
| | <u>\$ 4,545,176</u> | <u>\$ 681,334</u> | <u>\$ 5,226,510</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, 2015 are as follows:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

| | Transfer from | | |
|-----------------------------|---------------------|-------------------|---------------------|
| | General | Nonmajor | |
| | <u>Fund</u> | <u>Funds</u> | <u>Totals</u> |
| General Fund | | \$ 128,515 | \$ 128,515 |
| Nonmajor Governmental Funds | \$ 1,505,420 | | 1,505,420 |
| | <u>\$ 1,505,420</u> | <u>\$ 128,515</u> | <u>\$ 1,633,935</u> |

NOTE 12—RESTRICTED NET POSITION

Net position is restricted for specific purposes as follows:

| | Governmental |
|-----------------------------|---------------------|
| | <u>Activities</u> |
| Permanent Funds - Principal | \$ 208,411 |
| Permanent Funds - Income | 21,713 |
| City capital projects | 552,583 |
| Debt service | 166,668 |
| Pollution remediation | 44,308 |
| Food service operations | 52,169 |
| Police forfeiture | 108,138 |
| Grants | 78,927 |
| | <u>\$ 1,232,917</u> |

NOTE 13—COMPONENTS OF FUND BALANCE

The components of the City's fund balance for its governmental funds at June 30, 2015 are as follows:

| | General | Nonmajor | Total |
|-----------------------------|-------------|---------------------|---------------------|
| | <u>Fund</u> | <u>Governmental</u> | <u>Governmental</u> |
| | | <u>Funds</u> | <u>Funds</u> |
| Nonspendable for: | | | |
| Prepaid expenses | \$ 44,281 | | \$ 44,281 |
| Permanent Funds - principal | | \$ 208,411 | 208,411 |
| Restricted for: | | | |
| Debt service | 166,668 | | 166,668 |
| Pollution remediation | 44,308 | | 44,308 |
| Capital Projects | | 552,583 | 552,583 |
| Permanent Funds - income | | 21,713 | 21,713 |
| Food service operations | | 52,169 | 52,169 |
| Police forfeiture | | 108,138 | 108,138 |
| Grants | | 78,927 | 78,927 |

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

| | | | |
|---|---------------------|---------------------|---------------------|
| Committed for: | | | |
| Capital Reserve | 459,817 | | 459,817 |
| Encumbrances | 171,050 | | 171,050 |
| Transportation improvement projects | | 112,835 | 112,835 |
| Conservation | | 78,141 | 78,141 |
| Cable Communications | | 162,387 | 162,387 |
| School operations | | 142,947 | 142,947 |
| Assigned for: | | | |
| Encumbrances | 53,503 | | 53,503 |
| Designated to offset subsequent fiscal year tax rate | 535,000 | | 535,000 |
| Unassigned: | | | |
| Unassigned - General operations | 3,882,740 | | 3,882,740 |
| | <u>\$ 5,357,367</u> | <u>\$ 1,518,251</u> | <u>\$ 6,875,618</u> |

NOTE 14—COMMITMENTS

Waste Disposal and Recycling

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.

For the year ended June 30, 2015, the City expended \$332,242 and \$150,651 for solid waste and recycling services, respectively, under the terms of the agreement.

During May 2015, the City extended its long-term contract with an independent company to provide municipal solid waste disposal and recycling collection. Terms of the agreement call for payment on a per ton rate which increases annually and ranges from \$157 to \$165 for municipal solid waste and \$180 to \$184 for recycling. The agreement includes a bi-annual fuel adjustment based on the average cost of diesel fuel for the previous six months.

NOTE 15—CONTINGENT LIABILITIES

Litigation

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

Federal Grants

The City participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amounts, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 16—RESTATEMENT OF NET POSITION

Government-Wide Statements

During the year ended June 30, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions*, as described in Note 1 of these financial statements. In addition, it was determined a governmental fund was previously reported as an Agency Fund. The impact on net position of the Governmental and Business-type Activities as of July 1, 2014 is as follows:

| | Governmental <u>Activities</u> | Business-type <u>Activities</u> |
|---|-----------------------------------|------------------------------------|
| Net Position, July 1, 2014 (as previously reported) | \$ 17,760,011 | \$ 11,910,155 |
| Amount of restatement due to: | | |
| Net Pension Liability | (26,277,431) | (837,647) |
| Contributions subsequent to measurement date | 2,012,098 | 62,422 |
| Reclassification of governmental fund | <u>77,531</u> | |
| Net Position, July 1, 2014 - as restated | <u>\$ (6,427,791)</u> | <u>\$ 11,134,930</u> |

Proprietary Funds

The impact on net position of the Water and Sewer Funds as of July 1, 2014 is as follows:

| | Water <u>Fund</u> | Sewer <u>Fund</u> |
|---|----------------------|----------------------|
| Net Position, July 1, 2014 (as previously reported) | \$ 2,748,395 | \$ 9,103,031 |
| Amount of restatement due to: | | |
| Net Pension Liability | (439,140) | (398,507) |
| Contributions subsequent to measurement date | <u>32,725</u> | <u>29,697</u> |
| Net Position, July 1, 2014 - as restated | <u>\$ 2,341,980</u> | <u>\$ 8,734,221</u> |

Governmental Funds

As noted above, during the year ended June 30, 2015, it was determined that a governmental fund was previously reported as an Agency fund. The impact on fund balance of the nonmajor governmental funds as of July 1, 2014 is as follows:

| | Nonmajor Governmental <u>Funds</u> |
|--|--|
| Fund balance - July 1, 2014 (as previously reported) | \$ 1,792,926 |
| Amount of restatement due to: | |
| Reclassification of governmental fund | <u>77,531</u> |
| Fund balance - July 1, 2014, as restated | <u>\$ 1,870,457</u> |

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 17—SUBSEQUENT EVENT

Bond Anticipation Note

During January 2016, as authorized by City Council on March 16, 2015, the City obtained a bond anticipation note in the amount of \$1,625,000. The note bears interest at .85% and matures on July 19, 2016.

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, 2015

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with |
|---|-------------------------|---------------------|---------------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | Final Budget - Favorable (Unfavorable) |
| Revenues: | | | | |
| Taxes | \$ 23,492,260 | \$ 23,492,260 | \$ 23,517,691 | \$ 25,431 |
| Licenses and permits | 1,514,625 | 1,514,625 | 1,669,565 | 154,940 |
| Intergovernmental | 10,241,281 | 10,241,281 | 10,308,317 | 67,036 |
| Charges for services | 1,752,891 | 1,752,891 | 1,813,082 | 60,191 |
| Interest income | 20,000 | 20,000 | 36,243 | 16,243 |
| Miscellaneous | 401,568 | 401,568 | 364,389 | (37,179) |
| Total Revenues | <u>37,422,625</u> | <u>37,422,625</u> | <u>37,709,287</u> | <u>286,662</u> |
| Expenditures: | | | | |
| Current operations: | | | | |
| Elected leadership | 123,011 | 123,011 | 120,559 | 2,452 |
| City management | 450,299 | 450,299 | 415,343 | 34,956 |
| Finance and administration | 1,137,592 | 1,137,592 | 1,082,522 | 55,070 |
| Development services | 899,899 | 899,899 | 810,697 | 89,202 |
| Fire and rescue | 2,066,348 | 2,066,348 | 2,057,148 | 9,200 |
| Police | 3,316,029 | 3,316,029 | 3,126,490 | 189,539 |
| Public works and utilities | 2,295,527 | 2,295,527 | 2,208,501 | 87,026 |
| School | 25,810,232 | 25,759,853 | 25,597,879 | 161,974 |
| Other | 315,252 | 274,837 | 257,959 | 16,878 |
| Capital outlay | 255,757 | 255,757 | 232,531 | 23,226 |
| Debt service: | | | | |
| Principal retirement | 730,575 | 730,575 | 730,575 | - |
| Interest and fiscal charges | 269,399 | 269,399 | 269,365 | 34 |
| Total Expenditures | <u>37,669,920</u> | <u>37,579,126</u> | <u>36,909,569</u> | <u>669,557</u> |
| Excess revenues over (under) expenditures | <u>(247,295)</u> | <u>(156,501)</u> | <u>799,718</u> | <u>956,219</u> |
| Other financing sources (uses): | | | | |
| Transfers in | 3,500 | 3,500 | 128,515 | 125,015 |
| Transfers out | <u>(141,205)</u> | <u>(1,545,887)</u> | <u>(1,545,887)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(137,705)</u> | <u>(1,542,387)</u> | <u>(1,417,372)</u> | <u>125,015</u> |
| Net change in fund balance | (385,000) | (1,698,888) | (617,654) | 1,081,234 |
| Fund balance at beginning of year | | | | |
| - Budgetary Basis | <u>5,923,245</u> | <u>5,923,245</u> | <u>5,923,245</u> | <u>-</u> |
| Fund balance at end of year | | | | |
| - Budgetary Basis | <u>\$ 5,538,245</u> | <u>\$ 4,224,357</u> | <u>\$ 5,305,591</u> | <u>\$ 1,081,234</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, 2015

| <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

SCHEDULE 3

CITY OF SOMERSWORTH, NEW HAMPSHIRE

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

For the Year Ended June 30, 2015

| | <u>2014</u> | <u>2013</u> |
|---|---------------|---------------|
| City's proportion of the net pension liability (asset) | 0.6394% | 0.6300% |
| City's proportionate share of the net pension liability (asset) | \$ 24,002,258 | \$ 27,115,078 |
| City's covered-employee payroll | \$ 15,816,118 | \$ 15,367,233 |
| City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 151.76% | 176.45% |
| Plan fiduciary net position as a percentage of the total pension liability | 66.32% | 59.81% |

See accompanying notes to the required supplementary information

SCHEDULE 4
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Schedule of City Contributions
For the Year Ended June 30, 2015

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|--------------------|--------------------|--------------------|
| Contractually required contribution | \$ 2,127,336 | \$ 2,074,520 | \$ 1,566,589 |
| Contributions in relation to the contractually required contribution | <u>(2,127,336)</u> | <u>(2,074,520)</u> | <u>(1,566,589)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$16,218,949 | \$ 15,816,118 | \$ 15,367,233 |
| Contributions as a percentage of covered-employee payroll | 13.12% | 13.12% | 10.19% |

See accompanying notes to the required supplementary information

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2015

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

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

| | Revenues and Other Financing <u>Sources</u> | Expenditures and Other Financing <u>Uses</u> |
|---|--|---|
| Per Exhibit D | \$ 38,089,882 | \$ 38,723,186 |
| Difference in property taxes meeting susceptible to accrual criteria | (81,669) | |
| Encumbrances - June 30, 2014 | | (402,309) |
| Encumbrances - June 30, 2015 | | 224,553 |
| Non-budgetary revenues and expenditures | (170,411) | (140,441) |
| Non-budgetary transfers out | | (90,738) |
| Budgetary transfers out | | 141,205 |
| Per Schedule 1 | <u>\$ 37,837,802</u> | <u>\$ 38,455,456</u> |

NOTE 2—BUDGETARY FUND BALANCE

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

| | |
|---|---------------------|
| Nonspendable for: | |
| Prepaid expenses | \$ 44,281 |
| Assigned for: | |
| Designated to offset subsequent fiscal year tax rate | 535,000 |
| Unassigned for: | |
| General operations | <u>4,726,310</u> |
| | <u>\$ 5,305,591</u> |

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
June 30, 2015

NOTE 3—SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS

In accordance with GASB Statement #45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, the City is required to disclose the schedule of funding progress for each of the three most recent actuarial valuations. The City implemented the provisions of GASB Statement #45 during the year ended June 30, 2009. Accordingly, the funding progress has been presented for the three most recent actuarial valuation reports.

NOTE 4—SCHEDULE OF CHANGES IN THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF CITY CONTRIBUTIONS

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

SCHEDULE I
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

| <u>Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number</u> | <u>Federal Catalogue Number</u> | <u>Expenditures</u> |
|---|---|---------------------|
| DEPARTMENT OF AGRICULTURE | | |
| Pass Through Payments from New Hampshire Department of Education | | |
| Child Nutrition Cluster: | | |
| School Breakfast Program | 10.553 | \$ 107,622 |
| National School Lunch Program | 10.555 | 351,658 |
| Special Milk Program for Children | 10.556 | 28 |
| Total Child Nutrition Cluster | | <u>459,308</u> |
| Fresh Fruit and Vegetable Program | 10.582 | <u>38,467</u> |
| Community Facilities Loans and Grants | 10.766 | <u>5,687</u> |
| Total Department of Agriculture | | <u>503,462</u> |
| DEPARTMENT OF THE INTERIOR | | |
| Pass Through Payments from New Hampshire Division of Historical Resources | | |
| Outdoor Recreation, Acquisition, Development and Planning #33-00694 | 15.916 | <u>17,497</u> |
| Total Department of the Interior | | <u>17,497</u> |
| DEPARTMENT OF JUSTICE | | |
| Received directly from U.S. Treasury Department Bulletproof Vest Partnership Program | 16.607 | 1,053 |
| Pass Through Payments from the County of Strafford, New Hampshire | | |
| Edward Byrne Memorial Justice Assistance Grant Program #2014-IH2875-NH-DJ | 16.738 | <u>11,654</u> |
| Total Department of Justice | | <u>12,707</u> |
| DEPARTMENT OF TRANSPORTATION | | |
| Pass Through Payments from the New Hampshire Department of Highway Safety and Transportation | | |
| Highway Planning and Construction | 20.205 | 298,551 |
| NH9-#19274.00#12228 | | 362,953 |
| #X-A001(109) | | <u>661,504</u> |
| Highway Safety Cluster: | | |
| State and Community Highway Safety | 20.600 | 254 |
| #315-14A-055 | | 1,763 |
| #315-14A-127 | | 103 |
| #315-14A-128 | | 518 |
| #315-15A-019 | | 5,000 |
| #315-15A-120 | | 6,000 |
| #315-15A-121 | | <u>13,638</u> |

See notes to the schedule of expenditures of federal awards

SCHEDULE I
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2015

| Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u> | Federal Catalogue <u>Number</u> | <u>Expenditures</u> |
|--|---------------------------------------|---------------------|
| DEPARTMENT OF TRANSPORTATION (CONTINUED) | | |
| Highway Safety Cluster (Continued): | | |
| Alcohol Impaired Driving Countermeasures Incentive Grants I #308-14A-052 | 20.601 | 429 |
| Total Highway Safety Cluster | | 14,067 |
| Total Department of Transportation | | 675,571 |
| DEPARTMENT OF EDUCATION | | |
| Pass Through Payments from New Hampshire Department of Education | | |
| Title I Grants to Local Educational Agencies | 84.010 | |
| #40131 | | 58,087 |
| #40211 | | 12,441 |
| #41509 | | 10,984 |
| #50131 | | 675,686 |
| #50166 | | 31,461 |
| #50211 | | 64,334 |
| #50300 | | 15,648 |
| #50330 | | 15,800 |
| | | 884,441 |
| Career and Technical Education - Basic Grants to States | 84.048 | |
| #45034 | | 6,706 |
| #55034 | | 103,979 |
| | | 110,685 |
| Twenty-First Century Community Learning Centers | 84.287 | |
| #55326 | | 210,025 |
| English Language Acquisition State Grants | 84.365 | |
| #30807 | | 5,181 |
| #40807 | | 16,782 |
| #40901 | | 5,556 |
| #50807 | | 4,089 |
| #50901 | | 268 |
| | | 31,876 |
| Improving Teacher Quality State Grants | 84.367 | |
| #44931 | | 8,535 |
| #45375 | | 10,025 |
| #54931 | | 121,082 |
| | | 139,642 |
| Total Department of Education | | 1,376,669 |
| DEPARTMENT OF HOMELAND SECURITY | | |
| Pass Through Payments from New Hampshire Department of Safety | | |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | |
| #FEMA-4209-DR-NH | | 36,340 |
| Staffing for Adequate Fire and Emergency Response (SAFER) | 97.083 | |
| #EMW-2013-FF-00397 | | 34,669 |
| Total Department of Homeland Security | | 71,009 |
| Total Expenditures of Federal Awards | | \$ 2,656,915 |

See notes to the schedule of expenditures of federal awards

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2015

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 \$18,020 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 | \$ 51,147 |
| Nonmajor Funds | <u>2,587,748</u> |
| | <u>\$ 2,638,895</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, 2015, and the related notes to the financial statements, which collectively comprise the City of Somersworth, New Hampshire's basic financial statements, and have issued our report thereon dated March 1, 2016.

Internal Control Over Financial Reporting

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

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


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

Compliance and Other Matters

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

Purpose of this Report

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

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

Manchester, New Hampshire
March 1, 2016

**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, 2015. 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, 2015.

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 "Vachon Clutay & Company PC". The signature is written in a cursive, flowing style.

Manchester, New Hampshire
March 1, 2016

**City of Somersworth, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015**

Section I--Summary of Auditor's Results

Financial Statements

| | | |
|---|---|-----------------------|
| Type of auditor's report issued: | <u>Unmodified – all reporting units</u> | |
| 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: | <u>Unmodified</u> |
|--|-------------------|

| | | |
|---|----------|------------|
| 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:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-------------------------|---|
| 20.205 | Highway Planning and Construction |
| 10.553, 10.555 & 10.556 | Child Nutrition Cluster |

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).