

March 9, 2017

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Somersworth, New Hampshire for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards* and Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 12, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Somersworth, New Hampshire are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements of the Governmental Activities, Business-type Activities, General Fund, Water Fund, Sewer Fund and the aggregate remaining information were:

Management's estimate of the allowance for uncollectible receivables is based on the taxpayer bankruptcies, abatements subsequently issued, historical collection levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the estimate for uncollectible receivables in determining that it is reasonable in relation to the financial statements taken as a whole. Additionally, management's estimates of the useful lives of depreciable capital assets and the liability for other post-employment benefits are based on historical utilization, necessary improvements and replacements, and an actuarial valuation, respectively. We evaluated the key factors and assumptions used to develop the useful lives of depreciable capital assets and the liability for other post-employment benefits payable in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate for pollution remediation costs and the remediation recovery receivable is based on various scenarios of annual anticipated monitoring costs measured utilizing a probability likelihood provided by the City's engineering firm. We evaluated the key factors and assumptions used to develop the liability for pollution remediation costs and the remediation recovery receivable in relation to actual expenditures incurred annually since the landfill was designated as a superfund site in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant estimates also include actuarial assumptions in determining pension costs which are based on plan audited financial statements. We evaluated the assumptions used in the plan audited financial statements to determine that they are reasonable in relation to the financial statements as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedules summarize uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 9, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Somersworth, New Hampshire's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Somersworth, New Hampshire's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to 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 which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedule of expenditures of federal awards, which accompany the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Mayor, City Council, and management of the City of Somersworth, New Hampshire and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Vachon Clukay & Company PC

ALG-CX-12.2: Audit Difference Evaluation Form

Governmental Unit:

City of Somersworth

Financial Statement Date:

6/30/2016

Opinion Unit:

Business-type Activities

A Listing of Known Audit Differences Over:

\$7,500

				Financial Statement Effect—Amount of Over- (Under-) statement of:						Change in Fund Balance/Net Position	
Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Cause	Work-paper Ref.	Total Assets	Total Liabilities	Working Cap.	Fund Balance/Net Position	Revenues	Expen.		
Unamortized Bond Premium	Factual	Unamortized bond premium not recorded	W 72		-19,904		-19,904		-3,451		-3,451
Water abatement for prior year billing error recorded in current year	Factual	Billing abatement made during July 2015 was for May 2015 billing	PY					-33,995			-33,995
Total				0	-19,904	0	-19,904	-33,995	-3,451		-37,446
Less audit adjustments subsequently booked											
Net unadjusted AD—current year (iron curtain method)				0	-19,904	0	-19,904	-33,995	-3,451		-37,446
Effect of unadjusted AD—prior years								33,995			33,995
Combined current year and prior year AD (rollover method)				0	-19,904	0	-19,904	0	-3,451		-3,451
Financial statement caption totals				26,593,253	13,202,499		13,390,754	5,572,137	4,331,794		1,240,343
Current year AD as % of F/S captions (iron curtain method)				0.00%	-0.15%	0.00%	-0.15%	-0.61%	-0.08%		-3.02%
Current and prior year AD as % of F/S captions (rollover method)				0.00%	-0.15%	0.00%	-0.15%	0.00%	-0.08%		-0.28%

A Listing of Known Audit Differences Over: \$2,500

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Cause	Work- paper Ref.	Financial Statement Effect—Amount of Over- (Under-) statement of:						Change in Fund Balance/ Net Position
				Total Assets	Total Liabilities	Working Cap.	Fund Balance/Net Position	Revenues	Expen.	
Unrecorded student account balances	Factual	The City does not record a liability for the advanced funding received related to student food service account balances	FS 65		-8,107		8,107	8,107		8,107
Total				0	-8,107	0	8,107	8,107	0	8,107
Less audit adjustments subsequently booked										
Net unadjusted AD—current year (iron curtain method)				0	-8,107	0	8,107	8,107	0	8,107
Effect of unadjusted AD—prior years								-6,719		-6,719
Combined current year and prior year AD (rollover method)				0	-8,107	0	8,107	1,388	0	1,388
Financial statement caption totals				2,072,694	423,244		1,649,450	3,302,544		131,199
Current year AD as % of F/S captions (iron curtain method)				0.00%	-1.92%	0.00%	0.49%	0.25%	0.00%	6.18%
Current and prior year AD as % of F/S captions (rollover method)				0.00%	-1.92%	0.00%	0.49%	0.04%	0.00%	1.06%

CITY OF SOMERSWORTH, NEW HAMPSHIRE

Financial Statements

With Schedule of Expenditures of Federal Awards

June 30, 2016

and

Independent Auditor's Report

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

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

Schedule of Findings and Questioned Costs

CITY OF SOMERSWORTH, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2016

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CITY OF SOMERSWORTH, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somersworth, New Hampshire, as of and for the year ended June 30, 2016, 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, 2016, 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 39-44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

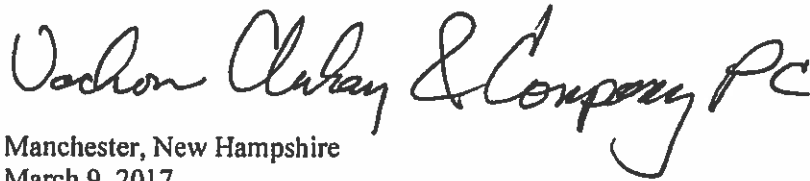
Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2017 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 Charney & Company PC

Manchester, New Hampshire
March 9, 2017

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, 2016. We encourage readers to consider the information here in conjunction with additional information that we have furnished in our letter of transmittal.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The statement of net position presents information on all assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the balance reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, health and welfare, culture and recreation, and education. The business-type activities include water, sewer, and solid waste activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$15,723,643, presented as "net position" shown on the Statement of Net Position for the Total Primary Government. The City's Net Position increased by \$6,905,166 compared to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$6,398,854, a change of (\$476,764) in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,195,743, a change of \$313,003 in comparison with the prior year. Due to City Council action, \$885,000 of the General Fund fund balance has been designated for future years' expenditures and classified as committed.
- Total bonds payable at the close of the current fiscal year was \$31,123,012, a change of (\$3,660,438) 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	
	2016	2015	2016	2015	2016	2015
Current and other Assets	\$25,518	\$23,054	\$6,276	\$5,690	\$31,794	\$28,744
Capital Assets	46,791	43,491	20,257	20,693	67,048	64,184
Total Assets	<u>72,309</u>	<u>66,545</u>	<u>26,533</u>	<u>26,383</u>	<u>98,842</u>	<u>92,928</u>
Total deferred outflow of resources	<u>2,556</u>	<u>2,411</u>	<u>60</u>	<u>58</u>	<u>2,616</u>	<u>2,469</u>
Long-term Liabilities outstanding	52,784	54,077	11,921	12,825	64,705	66,902
Other Liabilities	6,822	4,527	1,232	1,366	8,054	5,893
Total Liabilities	<u>59,606</u>	<u>58,604</u>	<u>13,153</u>	<u>14,191</u>	<u>72,759</u>	<u>72,795</u>
Total deferred inflow of resources	<u>12,926</u>	<u>13,684</u>	<u>49</u>	<u>100</u>	<u>12,975</u>	<u>13,784</u>
Net Position:						
Invested in capital assets, net	26,609	20,944	8,302	7,746	34,911	28,690
Restricted	588	1,233	-	-	588	1,233
Unrestricted (Deficit)	(24,864)	(25,509)	5,089	4,404	(19,775)	(21,105)
Total Net Position	<u>\$2,333</u>	<u>(\$3,332)</u>	<u>\$13,391</u>	<u>\$12,150</u>	<u>\$15,724</u>	<u>\$8,818</u>

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,351	\$2,445	\$ 5,489	\$ 5,302	\$ 6,840	\$ 7,747
Operating grants and contributions	11,649	11,880	-	-	11,649	11,880
Capital grants and contributions	3,637	677	47	51	3,684	728
General revenues:						
Taxes	24,574	23,517	-	-	24,574	23,517
Licenses and Permits	1,943	1,731	-	-	1,943	1,731
Intergovernmental	563	567	-	-	563	567
Interest	72	47	-	-	72	47
Miscellaneous	<u>1,029</u>	<u>307</u>	<u>37</u>	<u>34</u>	<u>1,066</u>	<u>341</u>
Total revenues	44,818	41,171	5,573	5,387	50,391	46,558
Expenses:						
General government	1,892	1,835	-	-	1,892	1,835
Public safety	6,110	5,641	-	-	6,110	5,641
Highways and streets	2,386	2,235	-	-	2,386	2,235
Health and welfare	254	264	-	-	254	264
Culture and recreation	462	449	-	-	462	449
School department	27,492	27,080	-	-	27,492	27,080
Interest	557	571	-	-	557	571
Other	-	-	-	-	-	-
Water operations	-	-	1,797	1,945	1,797	1,945
Sewer operations	-	-	2,135	2,036	2,135	2,036
Solid waste operations	-	-	400	391	400	391
Total expenses	<u>39,153</u>	<u>38,075</u>	<u>4,332</u>	<u>4,372</u>	<u>43,485</u>	<u>42,447</u>
Change in net position before transfers	5,665	3,096	1,241	1,015	6,906	4,111
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	5,665	3,096	1,241	1,015	6,906	4,111
Net position – beginning of 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>
Net position - end of the year	<u>\$2,333</u>	<u>(\$3,332)</u>	<u>\$13,391</u>	<u>\$12,150</u>	<u>\$15,724</u>	<u>\$8,818</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 \$15,723,643, a change of \$6,905,166 from the prior year.

The largest portion of the City's net position, \$34,910,875 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, \$587,820 represents resources that are subject to external restrictions on how they may be used. The remaining balance of (\$19,775,052) 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 and related deferred inflows and outflows of resources of the New Hampshire Retirement System.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$5,664,823. Key elements of this change are as follows:

	Governmental
	<u>Activities</u>
General fund operating results, as disclosed in Exhibit D	\$ 349,088
School Capital Projects Fund	(957,051)
Non-major funds – operating results	131,199
Other GAAP accruals – see Exhibit D in the financial statements	<u>6,141,587</u>
Total	<u>\$5,664,823</u>

Business-Type Activities. Business-type activities for the year resulted in a change in net position of \$1,240,343. Key elements of this change are as follows:

Water Fund	\$ 699,639
Sewer Fund	528,727
Solid Waste Fund	<u>11,977</u>
Total	<u>\$1,240,343</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 \$6,398,854, as restated, a change of (\$476,764) in comparison with the prior year. Key elements of this change are as follows:

	Governmental <u>Funds</u>
General fund operating results, as disclosed below	\$ 349,088
School Capital Projects Fund	(957,051)
Non-major fund operating results	<u>131,199</u>
Total	<u>(\$ 476,764)</u>

The general fund is the main operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,195,743 while total fund balance was \$5,706,455. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures.

The fund balance of the general fund increased by \$349,088 during the current fiscal year. Key factors in this change are as follows:

	General <u>Fund</u>
Actual revenues in excess of budgeted amounts	\$ 970,721
Actual expenditures less than appropriated amounts	463,813
Property tax collections exceeding (less than) net tax levy	80,879
Use of fund balance as funding source	(1,703,000)
Excess of prior year encumbrances over current year	593,952
Non-budgetary Revenues and Expenses:	
Capital Reserve Funds	(19,920)
Landfill Trust Fund	<u>(37,357)</u>
Total	\$ 349,088

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

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

Unrestricted net position of the enterprise funds at the end of the year are \$5,089,045, a change of \$684,407 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 \$1,670,281. On July 20, 2015, the City Council adopted Ordinance 25-15 providing a supplemental appropriation in the amount of \$502,281 to rehabilitate the Rocky Hill Road water tank. On September 21, 2015, the City Council adopted Ordinance 6-16 providing a supplemental appropriation in the amount of \$297,000 for road resurfacing projects. On April 4, 2016, the City Council adopted Ordinance 15-16 providing a supplemental appropriation in the amount of \$371,000 to replace the roof at the Somersworth Career Technical Center. On May 16, 2016, the City Council adopted Ordinance 17-16 providing a supplemental appropriation in the amount of \$500,000 as an operating transfer to the Municipal and Transportation Fund.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets.

Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 67,084,519 (net of accumulated depreciation), a change of \$2,863,831 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 \$ 31,123,012, 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 2016 was a year of continuous improvement for the City with continued infrastructure improvements. Interest in the City as a business destination continues to grow.

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.

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, 2016

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 19,617,062		\$ 19,617,062
Investments	3,686,072		3,686,072
Taxes receivable, net	958,578		958,578
Accounts receivable, net	121,172	\$ 882,813	1,003,985
Remediation recovery receivable	70,884		70,884
Due from other governments	2,290,931	122,388	2,413,319
Internal balances	(4,038,725)	4,038,725	-
Prepaid expenses	27,827	7,790	35,617
Inventory		122,754	122,754
Total Current Assets	<u>22,733,801</u>	<u>5,174,470</u>	<u>27,908,271</u>
Noncurrent Assets:			
Remediation recovery receivable	2,784,285		2,784,285
Due from other governments		1,101,485	1,101,485
Capital assets:			
Non-depreciable capital assets	6,882,780	648,636	7,531,416
Depreciable capital assets, net	<u>39,908,124</u>	<u>19,608,979</u>	<u>59,517,103</u>
Total Noncurrent Assets	<u>49,575,189</u>	<u>21,359,100</u>	<u>70,934,289</u>
Total Assets	<u>72,308,990</u>	<u>26,533,570</u>	<u>98,842,560</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	<u>2,555,624</u>	<u>59,683</u>	<u>2,615,307</u>
Total Deferred Outflows of Resources	<u>2,555,624</u>	<u>59,683</u>	<u>2,615,307</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	1,810,264	109,568	1,919,832
Accrued expenses	411,456	116,452	527,908
Retainage payable	411,326		411,326
Current portion of bonds payable	2,248,777	1,006,447	3,255,224
Current portion of capital leases payable	162,597		162,597
Current portion of compensated absences payable	5,114		5,114
Current portion of pollution remediation obligation	<u>143,200</u>		<u>143,200</u>
Total Current Liabilities	<u>6,822,377</u>	<u>1,232,467</u>	<u>8,054,844</u>
Noncurrent Liabilities:			
Bonds payable	16,997,227	10,870,561	27,867,788
Capital leases payable	411,811	78,898	490,709
Compensated absences payable	1,726,294	116,146	1,842,440
Other post-employment benefits obligation	3,584,406	174,545	3,758,951
Net pension liability	24,439,253	680,867	25,120,120
Pollution remediation obligation	<u>5,624,818</u>		<u>5,624,818</u>
Total Noncurrent Liabilities	<u>52,783,809</u>	<u>11,921,017</u>	<u>64,704,826</u>
Total Liabilities	<u>59,606,186</u>	<u>13,153,484</u>	<u>72,759,670</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes collected in advance	11,485,037		11,485,037
Deferred inflows related to pension	<u>1,440,502</u>	<u>49,015</u>	<u>1,489,517</u>
Total Deferred Inflows of Resources	<u>12,925,539</u>	<u>49,015</u>	<u>12,974,554</u>
NET POSITION			
Net investment in capital assets	26,609,166	8,301,709	34,910,875
Restricted	587,820		587,820
Unrestricted (Deficit)	<u>(24,864,097)</u>	<u>5,089,045</u>	<u>(19,775,052)</u>
Total Net Position	<u>\$ 2,332,889</u>	<u>\$ 13,390,754</u>	<u>\$ 15,723,643</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, 2016

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	\$ 1,892,048	\$ 142,424	\$ 6,610		\$ (1,743,014)		\$ (1,743,014)
Public safety	6,110,404	32,321	65,509		(6,012,574)		(6,012,574)
Highways and streets	2,208,779		226,028	\$ 711,254	(1,271,497)		(1,271,497)
Sanitation	176,827		1,494		(175,333)		(175,333)
Health and welfare	254,379				(254,379)		(254,379)
Culture and recreation	457,325	91,300	5,010		(361,015)		(361,015)
Conservation	827				(827)		(827)
Economic development	4,584		100		(4,484)		(4,484)
Education	26,793,451	821,293	10,002,609	2,926,219	(13,043,330)		(13,043,330)
Food service	698,063	263,986	476,295		42,218		42,218
Debt service	556,883		864,933		308,050		308,050
Total governmental activities	<u>39,153,570</u>	<u>1,351,324</u>	<u>11,648,588</u>	<u>3,637,473</u>	<u>(22,516,185)</u>	<u>\$ -</u>	<u>(22,516,185)</u>
Business-type activities:							
Water	1,796,851	2,466,023				669,172	669,172
Sewer	2,134,922	2,610,546		46,958		522,582	522,582
Solid waste	400,021	411,998				11,977	11,977
Total business-type activities	<u>4,331,794</u>	<u>5,488,567</u>	<u>-</u>	<u>46,958</u>	<u>-</u>	<u>1,203,731</u>	<u>1,203,731</u>
Total primary government	<u>\$ 43,485,364</u>	<u>\$ 6,839,891</u>	<u>\$ 11,648,588</u>	<u>\$ 3,684,431</u>	<u>(22,516,185)</u>	<u>1,203,731</u>	<u>(21,312,454)</u>
General revenues:							
Property and other taxes					24,573,573		24,573,573
Licenses and permits					1,942,665		1,942,665
Grants and contributions:							
Rooms and meals tax distribution					563,506		563,506
Interest and investment earnings					72,483		72,483
Miscellaneous					698,952	36,612	735,564
Contributions to permanent fund principal					600		600
Special item - Change in pollution remediation assumptions					329,229		329,229
Total general revenues, contributions to permanent fund principal and special items					<u>28,181,008</u>	<u>36,612</u>	<u>28,217,620</u>
Change in net position					5,664,823	1,240,343	6,905,166
Net position - beginning					(3,331,934)	12,150,411	8,818,477
Net position - ending					<u>\$ 2,332,889</u>	<u>\$ 13,390,754</u>	<u>\$ 15,723,643</u>

See accompanying notes to the basic financial statements

EXHIBIT C
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	School Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 18,147,984	\$ 1,284,137	\$ 184,941	\$ 19,617,062
Investments	2,625,009		1,061,063	3,686,072
Taxes receivable, net	958,578			958,578
Accounts receivable	66,323		54,849	121,172
Due from other governments		1,903,433	387,498	2,290,931
Due from other funds	1,209,594		384,343	1,593,937
Prepaid expenses	78,691			78,691
Total Assets	<u>23,086,179</u>	<u>3,187,570</u>	<u>2,072,694</u>	<u>28,346,443</u>
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 23,086,179</u>	<u>\$ 3,187,570</u>	<u>\$ 2,072,694</u>	<u>\$ 28,346,443</u>
LIABILITIES				
Accounts payable	\$ 362,383	\$ 1,304,629	\$ 26,346	\$ 1,693,358
Accrued expenses	215,966			215,966
Retainage payable	9,030	361,326	40,970	411,326
Due to other governments	4,643			4,643
Due to other funds	4,539,974	853,666	355,928	5,749,568
Bond anticipation notes payable		1,625,000		1,625,000
Total Liabilities	<u>5,131,996</u>	<u>4,144,621</u>	<u>423,244</u>	<u>9,699,861</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes collected in advance	11,485,037			11,485,037
Unearned property tax revenue	762,691			762,691
Total Deferred Inflows of Resources	<u>12,247,728</u>	<u>-</u>	<u>-</u>	<u>12,247,728</u>
FUND BALANCES				
Nonspendable	78,691		213,985	292,676
Restricted	91,791		282,044	373,835
Committed	1,284,758		1,158,237	2,442,995
Assigned	55,472			55,472
Unassigned (Deficit)	4,195,743	(957,051)	(4,816)	3,233,876
Total Fund Balances (Deficit)	<u>5,706,455</u>	<u>(957,051)</u>	<u>1,649,450</u>	<u>6,398,854</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 23,086,179</u>	<u>\$ 3,187,570</u>	<u>\$ 2,072,694</u>	<u>\$ 28,346,443</u>

See accompanying notes to the basic financial statements

EXHIBIT C-1
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2016

Total Fund Balances - Governmental Funds (Exhibit C)	\$ 6,398,854
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	46,790,904
Prepaid expenses for debt service requirements reduce long-term liabilities on the accrual basis in the statement of net position, not the modified accrual basis	(50,864)
Other long-term assets are not available to pay current period expenditures, and therefore, are not reported in governmental funds	2,855,169
Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis	762,691
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	2,555,624
Deferred inflow of resources attributable to net pension liability	(1,440,502)
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	(19,246,004)
Capital leases payable	(574,408)
Accrued interest on long-term obligations	(195,490)
Compensated absences payable	(1,731,408)
Other post-employment benefits obligation	(3,584,406)
Net pension liability	(24,439,253)
Estimated pollution remediation obligation	<u>(5,768,018)</u>
Net Position of Governmental Activities (Exhibit A)	<u>\$ 2,332,889</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, 2016

	<u>General Fund</u>	<u>School Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 24,640,745		\$ 13,707	\$ 24,654,452
Licenses and permits	1,879,735		62,930	1,942,665
Intergovernmental	10,294,360	\$ 2,926,219	2,628,988	15,849,567
Charges for services	920,532		430,792	1,351,324
Interest and investment income	50,432	66	21,985	72,483
Miscellaneous	555,410		144,142	699,552
Total Revenues	<u>38,341,214</u>	<u>2,926,285</u>	<u>3,302,544</u>	<u>44,570,043</u>
Expenditures:				
Current operations:				
General government	1,765,310		24,322	1,789,632
Public safety	5,803,209		87,513	5,890,722
Highways and streets	1,488,547		102,430	1,590,977
Sanitation	270,350			270,350
Health and welfare	254,671			254,671
Culture and recreation	419,725		5,113	424,838
Conservation			827	827
Economic development	4,536		48	4,584
Education	23,986,642		1,572,087	25,558,729
Food service			698,063	698,063
Capital outlay	274,300	4,254,336	872,073	5,400,709
Debt service:				
Principal retirement	2,658,083			2,658,083
Interest and fiscal charges	687,810			687,810
Total Expenditures	<u>37,613,183</u>	<u>4,254,336</u>	<u>3,362,476</u>	<u>45,229,995</u>
Excess revenues over (under) expenditures	<u>728,031</u>	<u>(1,328,051)</u>	<u>(59,932)</u>	<u>(659,952)</u>
Other financing sources (uses):				
Proceeds from capital lease	183,188			183,188
Transfers in	308,869	371,000	500,000	1,179,869
Transfers out	(871,000)		(308,869)	(1,179,869)
Total other financing sources (uses)	<u>(378,943)</u>	<u>371,000</u>	<u>191,131</u>	<u>183,188</u>
Net change in fund balances	<u>349,088</u>	<u>(957,051)</u>	<u>131,199</u>	<u>(476,764)</u>
Fund balances at beginning of year	<u>5,357,367</u>	<u>-</u>	<u>1,518,251</u>	<u>6,875,618</u>
Fund balances (Deficit) at end of year	<u>\$ 5,706,455</u>	<u>\$ (957,051)</u>	<u>\$ 1,649,450</u>	<u>\$ 6,398,854</u>

See accompanying notes to the basic financial statements

EXHIBIT D-1
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2016

Net Change in Fund Balances - Governmental Funds (Exhibit D)	\$ (476,764)
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.	3,299,425
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(80,879)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	2,483,439
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
Prepayment of capital lease principal and interest is an asset in the governmental funds, but the prepayment of principal reduces long-term liabilities in the statement of net position and the prepayment of interest is expensed in the statement of activities.	(50,864)
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.	(183,188)
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.	120,128
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.	18,738
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.	523,953
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.	(535,963)
Pollution remediation obligations and the related receivables are measured using assumptions of probability weighted scenarios. As assumptions are updated, the liability and related receivables increase or decrease. This is the amount of the net decrease in the liability and related receivables due to changes in assumptions.	<u>329,229</u>
Change in Net Position of Governmental Activities (Exhibit B)	<u>\$ 5,664,823</u>

See accompanying notes to the basic financial statements

EXHIBIT E
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business-type Activities			
	Water Fund	Sewer Fund	Nonmajor Fund	Totals
ASSETS				
Current Assets:				
Accounts receivable, net	\$ 449,776	\$ 418,869	\$ 14,168	\$ 882,813
Due from other governments		122,388		122,388
Due from other funds	1,909,750	2,064,315	64,660	4,038,725
Prepaid expenses	3,895	3,895		7,790
Inventory	110,772		11,982	122,754
Total Current Assets	<u>2,474,193</u>	<u>2,609,467</u>	<u>90,810</u>	<u>5,174,470</u>
Noncurrent Assets:				
Due from other governments		1,101,485		1,101,485
Capital assets:				
Non-depreciable capital assets	196,032	452,604		648,636
Depreciable capital assets, net	<u>7,357,033</u>	<u>12,251,946</u>		<u>19,608,979</u>
Total Noncurrent Assets	<u>7,553,065</u>	<u>13,806,035</u>	<u>-</u>	<u>21,359,100</u>
Total Assets	<u>10,027,258</u>	<u>16,415,502</u>	<u>90,810</u>	<u>26,533,570</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pension	<u>31,815</u>	<u>27,868</u>		<u>59,683</u>
Total Deferred Outflows of Resources	<u>31,815</u>	<u>27,868</u>	<u>-</u>	<u>59,683</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	31,390	48,225	29,953	109,568
Accrued expenses	99,489	16,963		116,452
Current portion of bonds payable	<u>425,308</u>	<u>581,139</u>		<u>1,006,447</u>
Total Current Liabilities	<u>556,187</u>	<u>646,327</u>	<u>29,953</u>	<u>1,232,467</u>
Noncurrent Liabilities:				
Bonds payable	5,413,935	5,456,626		10,870,561
Capital leases payable	39,449	39,449		78,898
Compensated absences payable	54,708	61,438		116,146
Other post-employment benefits obligation	102,858	71,687		174,545
Net pension liability	<u>316,766</u>	<u>364,101</u>		<u>680,867</u>
Total Noncurrent Liabilities	<u>5,927,716</u>	<u>5,993,301</u>	<u>-</u>	<u>11,921,017</u>
Total Liabilities	<u>6,483,903</u>	<u>6,639,628</u>	<u>29,953</u>	<u>13,153,484</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pension	<u>22,804</u>	<u>26,211</u>		<u>49,015</u>
Total Deferred Inflows of Resources	<u>22,804</u>	<u>26,211</u>	<u>-</u>	<u>49,015</u>
NET POSITION				
Net investment in capital assets	1,674,373	6,627,336		8,301,709
Unrestricted	<u>1,877,993</u>	<u>3,150,195</u>	<u>60,857</u>	<u>5,089,045</u>
Total Net Position	<u>\$ 3,552,366</u>	<u>\$ 9,777,531</u>	<u>\$ 60,857</u>	<u>\$ 13,390,754</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, 2016

	Business-type Activities			
	Water	Sewer	Nonmajor	Totals
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	
Operating revenues:				
Charges for services	\$ 2,466,023	\$ 2,610,546	\$ 411,998	\$ 5,488,567
Miscellaneous	<u>30,467</u>	<u>6,145</u>		<u>36,612</u>
Total operating revenues	<u>2,496,490</u>	<u>2,616,691</u>	<u>411,998</u>	<u>5,525,179</u>
Operating expenses:				
Personnel services	467,427	493,893		961,320
Contractual services	70,774	237,657	347,156	655,587
Repairs and maintenance	94,982	44,621		139,603
Administration	85,469	68,625	139	154,233
Materials and supplies	140,985	136,657	52,726	330,368
Utilities	161,353	238,059		399,412
Depreciation	481,123	682,706		1,163,829
Miscellaneous	<u>56,955</u>	<u>57,000</u>		<u>113,955</u>
Total operating expenses	<u>1,559,068</u>	<u>1,959,218</u>	<u>400,021</u>	<u>3,918,307</u>
Operating income	<u>937,422</u>	<u>657,473</u>	<u>11,977</u>	<u>1,606,872</u>
Non-operating (expenses):				
Interest expense	<u>(237,783)</u>	<u>(175,704)</u>		<u>(413,487)</u>
Total non-operating (expenses)	<u>(237,783)</u>	<u>(175,704)</u>	<u>-</u>	<u>(413,487)</u>
Income before capital contributions	699,639	481,769	11,977	1,193,385
Capital contributions		<u>46,958</u>		<u>46,958</u>
Change in net position	699,639	528,727	11,977	1,240,343
Total net position at beginning of year	<u>2,852,727</u>	<u>9,248,804</u>	<u>48,880</u>	<u>12,150,411</u>
Total net position at end of year	<u>\$ 3,552,366</u>	<u>\$ 9,777,531</u>	<u>\$ 60,857</u>	<u>\$ 13,390,754</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, 2016

	Business-type Activities			
	Water Fund	Sewer Fund	Nonmajor Fund	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 2,522,311	\$ 2,619,050	\$ 407,517	\$ 5,548,878
Cash paid to suppliers	(863,925)	(980,963)	(383,416)	(2,228,304)
Cash paid to employees	(335,550)	(296,416)		(631,966)
Net cash provided by operating activities	<u>1,322,836</u>	<u>1,341,671</u>	<u>24,101</u>	<u>2,688,608</u>
Cash flows from capital financing activities:				
Purchases of capital assets	(554,065)	(71,126)		(625,191)
Capital contributions		169,346		169,346
Proceeds from bonds issued	3,193,000			3,193,000
Proceeds from bond premiums	286,106			286,106
Payment of bond issuance costs	(17,500)			(17,500)
Principal paid on long-term debt	(3,927,508)	(575,458)		(4,502,966)
Principal paid on capital leases	(12,073)	(12,073)		(24,146)
Interest paid on long-term debt	(226,246)	(203,283)		(429,529)
Net cash (used) for capital financing activities	<u>(1,258,286)</u>	<u>(692,594)</u>	<u>-</u>	<u>(1,950,880)</u>
Net increase in cash and cash equivalents	64,550	649,077	24,101	737,728
Cash and cash equivalents at beginning of year	<u>1,845,200</u>	<u>1,415,238</u>	<u>40,559</u>	<u>3,300,997</u>
Cash and cash equivalents at end of year	<u>\$ 1,909,750</u>	<u>\$ 2,064,315</u>	<u>\$ 64,660</u>	<u>\$ 4,038,725</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 937,422	\$ 657,473	\$ 11,977	\$ 1,606,872
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	481,123	682,706		1,163,829
Change in deferred outflows related to pension	(4,989)	2,966		(2,023)
Change in deferred inflows related to pension	(29,762)	(21,491)		(51,253)
Changes in assets and liabilities:				
Accounts receivable, net	25,821	2,359	(4,481)	23,699
Prepaid expenses	(3,895)	(3,895)		(7,790)
Inventory	(5,894)		19,651	13,757
Accounts payable	(38,793)	(23,735)	(3,046)	(65,574)
Accrued expenses	(6,862)	(8,177)		(15,039)
Compensated absences payable	9,078	15,558		24,636
Other post-employment benefits obligation	21,447	17,398		38,845
Net pension liability	(61,860)	20,509		(41,351)
Net cash provided by operating activities	<u>\$ 1,322,836</u>	<u>\$ 1,341,671</u>	<u>\$ 24,101</u>	<u>\$ 2,688,608</u>
Non-cash investing, capital and financing activities:				
Amortization on bond premiums	\$ 20,146	\$ 26,422		\$ 46,568
Acquisition of capital assets through capital lease	<u>51,522</u>	<u>51,522</u>		<u>103,044</u>
	<u>\$ 71,668</u>	<u>\$ 77,944</u>	<u>\$ -</u>	<u>\$ 149,612</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, 2016

	Private- Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
ASSETS		
Cash and cash equivalents		\$ 182,782
Investments	\$ 186,629	
Due from other funds		<u>116,906</u>
Total Assets	<u>186,629</u>	<u>\$ 299,688</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows of Resources	<u>-</u>	
LIABILITIES		
Due to student groups		\$ 85,188
Deposits		<u>214,500</u>
Total Liabilities	<u>-</u>	<u>\$ 299,688</u>
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources	<u>-</u>	
NET POSITION		
Held in trust	<u>186,629</u>	
Total Net Position	<u>\$ 186,629</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, 2016

	<u>Private- Purpose Trust Funds</u>
ADDITIONS:	
Investment earnings:	
Interest	\$ 4,060
Realized gains on investments	744
Net increase in the fair value of investments	<u>2,425</u>
Total Investment Earnings	<u>7,229</u>
Total Additions	<u>7,229</u>
 DEDUCTIONS:	
Benefits	<u>1,000</u>
Total Deductions	<u>1,000</u>
 Change in net position	 6,229
 Net position - beginning of year	 <u>180,400</u>
Net position - end of year	<u>\$ 186,629</u>

See accompanying notes to the basic financial statements

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

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

Basis of Presentation

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

1. Government-Wide Financial Statements:

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

2. Fund Financial Statements:

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

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

Fund Accounting

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

1. Governmental Funds:

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

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

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

2. Proprietary Funds:

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

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

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

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

3. Fiduciary Funds:

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into two classifications: private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City maintains

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

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.

Measurement Focus

1. Government-Wide Financial Statements:

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

2. Fund Financial Statements:

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

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

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

Basis of Accounting

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

1. Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 15). 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, 2016, the City applied \$535,000 of its unappropriated fund balance to reduce taxes.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

Cash and Cash Equivalents

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

	Due from <u>other funds</u>
Proprietary Funds:	
Water Fund	\$ 1,909,750
Sewer Fund	2,064,315
Nonmajor Fund	<u>64,660</u>
	<u>\$ 4,038,725</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, 2016 are recorded as receivables net of reserves for estimated uncollectibles of \$49,170 and \$46,541 in the Water Fund and Sewer Fund, respectively.

Taxes Receivable

Taxes levied during the current fiscal year and prior and uncollected at June 30, 2016 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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

materially extend an asset's life are not. Interest incurred during the construction of proprietary capital assets is also capitalized.

All reported capital assets except for land, easements with an indefinite life, software and construction in process are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

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

Compensated Absences and Retirement Benefits

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

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

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

Bond Premium

Bond premiums are amortized as a component of interest expense over the 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, 2016 are \$1,252,405 and \$547,096 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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

Pensions

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

Net Position

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

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

Fund Balance Policy

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

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

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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

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

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

Interfund Activity

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

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

Operating Revenues and Expenses

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

Estimates

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

NOTE 2—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Balance

As of June 30, 2016, the City Capital Projects Fund, a nonmajor governmental fund has a deficit unassigned fund balance of (\$4,816).

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

NOTE 3—DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	\$ 19,617,062
Investments	3,686,072
Statement of fiduciary net position:	
Cash and cash equivalents	182,782
Investments	<u>186,629</u>
Total deposits and investments	<u>\$ 23,672,545</u>

Deposits and investments as of June 30, 2016, consist of the following:

Cash on hand	\$ 409
Deposits with financial institutions	21,817,880
Investments	<u>1,854,256</u>
Total deposits and investments	<u>\$ 23,672,545</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, 2016, the investment in the NHPDIP was rated AAAM. 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)
For the Year Ended June 30, 2016

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, \$20,298,173 was collateralized by securities held by the bank in the bank's name. As of June 30, 2016, 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		\$ 1,672,745
Money market mutual funds		<u>42,541</u>
		<u>\$ 1,715,286</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.

Fair Value

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs use to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2016:

Mutual Funds of \$1,672,475 are valued using quoted market prices (Level 1 inputs).

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

NOTE 4—CAPITAL ASSETS

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

	Balance <u>7/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2016</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 2,272,916			\$ 2,272,916
Easements	170,875			170,875
Software		\$ 183,188		183,188
Construction in process	<u>4,585,502</u>	<u>4,255,801</u>	<u>\$ (4,585,502)</u>	<u>4,255,801</u>
Total capital assets not being depreciated	<u>7,029,293</u>	<u>4,438,989</u>	<u>(4,585,502)</u>	<u>6,882,780</u>
Other capital assets:				
Infrastructure	10,485,086	5,546,819		16,031,905
Buildings and improvements	45,507,238			45,507,238
Vehicles and equipment	<u>6,451,254</u>	<u>89,647</u>		<u>6,540,901</u>
Total other capital assets at historical cost	<u>62,443,578</u>	<u>5,636,466</u>	<u>-</u>	<u>68,080,044</u>
Less accumulated depreciation for:				
Infrastructure	(2,513,769)	(558,182)		(3,071,951)
Buildings and improvements	(18,831,366)	(1,267,216)		(20,098,582)
Vehicles and equipment	<u>(4,636,257)</u>	<u>(365,130)</u>		<u>(5,001,387)</u>
Total accumulated depreciation	<u>(25,981,392)</u>	<u>(2,190,528)</u>	<u>-</u>	<u>(28,171,920)</u>
Total other capital assets, net	<u>36,462,186</u>	<u>3,445,938</u>	<u>-</u>	<u>39,908,124</u>
Total capital assets, net	<u>\$ 43,491,479</u>	<u>\$ 7,884,927</u>	<u>\$ (4,585,502)</u>	<u>\$ 46,790,904</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 96,917
Public safety	274,499
Highways and streets	715,822
Culture and recreation	22,098
Education	<u>1,081,192</u>
Total governmental activities depreciation expense	<u>\$ 2,190,528</u>

The balance of the assets acquired through capital leases as of June 30, 2016, is as follows:

	Vehicles and Equipment	Software
Cost	\$ 1,182,841	\$ 183,188
Less: accumulated depreciation	<u>(534,561)</u>	<u>-</u>
	<u>\$ 648,280</u>	<u>\$ 183,188</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

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

	Balance <u>7/1/2015</u>	Additions	Reductions	Balance <u>6/30/2016</u>
Business-type activities:				
Capital asset not depreciated:				
Land	\$ 500,895			\$ 500,895
Software		\$ 103,044		103,044
Construction in process	<u>2,168,867</u>	<u>44,697</u>	<u>\$ (2,168,867)</u>	<u>44,697</u>
Total capital assets not being depreciated	<u>2,669,762</u>	<u>147,741</u>	<u>(2,168,867)</u>	<u>648,636</u>
Other capital assets:				
Infrastructure	10,863,436	2,480,838		13,344,274
Buildings and improvements	26,060,470	192,615		26,253,085
Vehicles and equipment	<u>928,536</u>	<u>75,908</u>		<u>1,004,444</u>
Total other capital assets at historical cost	<u>37,852,442</u>	<u>2,749,361</u>	<u>-</u>	<u>40,601,803</u>
Less accumulated depreciation for:				
Infrastructure	(6,224,292)	(297,630)		(6,521,922)
Buildings and improvements	(12,903,485)	(817,436)		(13,720,921)
Vehicles and equipment	<u>(701,218)</u>	<u>(48,763)</u>		<u>(749,981)</u>
Total accumulated depreciation	<u>(19,828,995)</u>	<u>(1,163,829)</u>	<u>-</u>	<u>(20,992,824)</u>
Total other capital assets, net	<u>18,023,447</u>	<u>1,585,532</u>	<u>-</u>	<u>19,608,979</u>
Total capital assets, net	<u>\$ 20,693,209</u>	<u>\$ 1,733,273</u>	<u>\$ (2,168,867)</u>	<u>\$ 20,257,615</u>

Depreciation was charged to proprietary funds as follows:

Water fund	\$ 481,123
Sewer fund	<u>682,706</u>
Total Business-type activities depreciation expense	<u>\$ 1,163,829</u>

The balance of the assets acquired through capital leases in the proprietary funds as of June 30, 2016, is as follows:

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

NOTE 5—SHORT-TERM OBLIGATIONS

The City issued a bond anticipation note during the current year. The borrowing was to assist in the payment of improvements to the Career Technical Center and was guaranteed to be repaid from bond issuance proceeds.

The changes in the City's short-term obligations for the year ended June 30, 2016 are as follows:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

Balance - July 1, 2015	\$ -
Additions	1,625,000
Reductions	
Balance - June 30, 2016	<u>\$ 1,625,000</u>

NOTE 6—LONG-TERM OBLIGATIONS

General Long-term Obligations

The changes in the City's long-term obligations for the year ended June 30, 2016 are as follows:

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Due Within One Year
Governmental activities:					
Bonds payable	\$ 20,463,481		\$(2,469,882)	\$ 17,993,599	\$ 2,248,777
Unamortized bond premium	<u>1,372,533</u>		<u>(120,128)</u>	<u>1,252,405</u>	
Total Bonds payable	21,836,014	\$ -	(2,590,010)	19,246,004	2,248,777
Capital leases payable	622,346	183,188	(231,126)	574,408	162,597
Compensated absences	<u>1,794,513</u>	<u>338,000</u>	<u>(401,105)</u>	<u>1,731,408</u>	<u>5,114</u>
Total governmental activities	<u>\$ 24,252,873</u>	<u>\$ 521,188</u>	<u>\$(3,222,241)</u>	<u>\$ 21,551,820</u>	<u>\$ 2,416,488</u>
Business-type activities:					
Bonds payable	\$ 12,639,878	\$ 3,193,000	\$(4,502,966)	\$ 11,329,912	\$ 1,006,447
Unamortized bond premium	<u>307,558</u>	<u>286,106</u>	<u>(46,568)</u>	<u>547,096</u>	
Total Bonds payable	12,947,436	3,479,106	(4,549,534)	11,877,008	1,006,447
Capital leases payable		103,044	(24,146)	78,898	
Compensated absences	<u>91,510</u>	<u>24,636</u>	<u>-</u>	<u>116,146</u>	
Total business-type activities	<u>\$ 13,038,946</u>	<u>\$ 3,606,786</u>	<u>\$(4,573,680)</u>	<u>\$ 12,072,052</u>	<u>\$ 1,006,447</u>

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

General Obligation Bonds

Governmental Activities

Bonds payable at June 30, 2016 are comprised of the following individual issues:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

	Original Issue <u>Amount</u>	Interest <u>Rate</u>	Final Maturity <u>Date</u>	Balance at <u>6/30/2016</u>
1999 High Street Corridor bonds	\$ 1,300,000	4.5-5.25%	August 2019	\$ 260,000
2000 New City Hall bonds	1,400,000	4.75-5.25%	January 2021	350,000
2001 Landfill Cleanup bonds	750,000	4.125-4.80%	August 2016	50,000
2001 New City Hall bonds	450,000	4.125-4.80%	August 2016	30,000
2006 Police Station bonds	3,426,127	4.0-5.0%	August 2021	1,360,000
1996 School Bond bonds	5,300,000	5.625-5.75%	August 2016	395,000
1999 Kindergarten bonds	310,000	4.50-5.25%	August 2019	60,000
2008 School land bonds	1,338,545	4.00-5.25%	August 2018	265,000
2009 School bonds	18,953,000	3.73%	January 2030	11,477,099
2014 School HVAC bonds	2,365,550	4.1-5.60%	August 2028	534,000
2014 Downtown Improvement bonds	2,365,550	4.1-5.60%	August 2028	1,513,000
2015 Downtown Improvement bonds	441,000	2.50%	August 2029	411,600
2015 High Street Improvement bonds	859,500	2.50%	August 2024	769,500
2015 School HVAC bonds	459,000	2.50%	August 2029	428,400
2015 School HVAC bonds	105,000	2.50%	August 2024	90,000
Totals				17,993,599
		Add: Unamortized bond premium		1,252,405
				<u>\$ 19,246,004</u>

Debt service requirements to retire general obligation bonds outstanding at June 30, 2016 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,513,397	664,322	2,177,719
2022-2026	5,687,629	3,522,304	9,209,933
2027-2030	<u>3,249,914</u>	<u>3,248,396</u>	<u>6,498,310</u>
Total	17,993,599	10,050,752	28,044,351
Add: <i>Bond Premium</i>	<u>1,252,405</u>		<u>1,252,405</u>
Total	<u>\$ 19,246,004</u>	<u>\$ 10,050,752</u>	<u>\$ 29,296,756</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

Business-type Activities

Bonds payable at June 30, 2016 are comprised of the following individual issues:

	Original Issue Amount	Interest Rate	Maturity Date	Balance at 6/30/2016
<u>Water Fund:</u>				
Water High Lift Project bonds	\$ 650,000	3.4725%	October 2016	\$ 43,332
Water treatment plant upgrade bonds	1,843,500	4.25-5.25%	January 2028	1,085,000
Water treatment plant bonds	3,193,000	1.916%	February 2028	3,193,000
Downtown Improvement bonds	1,188,946	4.1-5.60%	August 2028	1,028,840
High Street Improvement bonds	95,500	2.50%	August 2024	85,500
				<u>5,435,672</u>
	Add: Unamortized bond premium			<u>403,571</u>
				<u>5,839,243</u>
<u>Sewer Fund:</u>				
Wastewater refunding bonds	\$ 7,810,000	2.0-4.0%	January 2026	5,010,000
Wastewater treatment facility bonds	524,944	2.952%	January 2029	400,080
Downtown Improvement bonds	559,504	4.1-5.60%	August 2028	484,160
				<u>5,894,240</u>
	Add: Unamortized bond premium			<u>143,525</u>
				<u>6,037,765</u>
				<u>\$ 11,877,008</u>

Debt service requirements to retire general obligation bonds for business-type activities at June 30, 2016 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,006,447	\$ 408,295	\$ 1,414,742
2018	970,815	366,786	1,337,601
2019	971,536	336,309	1,307,845
2020	977,279	300,905	1,278,184
2021	983,044	267,899	1,250,943
2022-2026	5,033,002	791,989	5,824,991
2027-2030	<u>1,387,789</u>	<u>70,777</u>	<u>1,458,566</u>
Total	11,329,912	2,542,960	13,872,872
Add: Bond Premium	<u>547,096</u>		<u>547,096</u>
Total	<u>\$ 11,877,008</u>	<u>\$ 2,542,960</u>	<u>\$ 14,419,968</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, 2016, the reimbursement was \$169,346 in the Sewer Fund.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

Capital Lease Obligations

Governmental Activities

Capital lease obligations represent lease agreements entered into for the financing of equipment acquisitions. These contracts are subject to cancellation should funds not be appropriated to meet payment obligations. Amounts are annually budgeted in the applicable function. The following are the individual capital lease obligations of the governmental activities at June 30, 2016:

Equipment due in annual installments of \$30,980, including interest of 3.40%, through December 2016	\$ 29,960
Equipment due in annual installments of \$66,390, including interest at 1.57%, through February 2019	193,080
Vehicle due in annual installments of \$72,587, including interest at 1.57%, through March 2019	211,105
Software due in annual installments of \$50,864, including interest at 4.25%, through July 2019	<u>140,263</u>
	<u>\$ 574,408</u>

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2016 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 162,597	\$ 7,360	\$ 169,957
2018	179,502	10,339	189,841
2019	183,557	6,284	189,841
2020	<u>48,752</u>	<u>2,112</u>	<u>50,864</u>
Total	<u>\$ 574,408</u>	<u>\$ 26,095</u>	<u>\$ 600,503</u>

Business-type Activities

The following are the individual capital lease obligations of the business-type activities at June 30, 2016:

Software due in annual installments of \$28,612, including interest at 4.25%, through July 2019	<u>\$ 78,898</u>
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CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2016 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ -	\$ -
2018	25,192	3,420	28,612
2019	26,284	2,328	28,612
2020	27,422	1,190	28,612
Total	<u>\$ 78,898</u>	<u>\$ 6,938</u>	<u>\$ 85,836</u>

NOTE 7—CURRENT REFUNDING OF DEBT

During the fiscal year ended June 30, 2016, the City issued \$3,193,000 of general obligation bonds to affect a current refunding for \$3,699,699 of outstanding bonds (old debt). Net refunding proceeds of \$3,457,606 and current resources of \$242,093 were used to retire old debt principal of \$3,699,699. As a result, this old debt is considered to be defeased, and the liability for those outstanding bonds has been removed from the balance sheet.

Additionally, the current refunding of debt resulted in the recognition of an economic gain of \$331,767. The City in effect, reduced its aggregate debt service payments by \$394,899 over the next twelve fiscal years through the current refunding.

NOTE 8—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 and local employees, public school teachers, permanent firefighters and permanent police officers within the State are eligible and required to participate in the Pension Plan.

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

Benefits Provided

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

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have a non-vested 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 22.54%, 25.32%, 12.72%, and 10.86%, 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, 2016 was \$2,271,978.

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

At June 30, 2016, the City reported a liability of \$25,120,120 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by a roll forward of the actuarial valuation from June 30, 2014. 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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

June 30, 2015, the City's proportion was approximately 0.6341 percent, which was a decrease of 0.0053 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$1,653,398. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$ 551,236
Net difference between projected and actual earnings on pension plan investments		671,365
Changes in proportion and differences between City contributions and proportionate share of contributions	\$ 343,329	266,916
City contributions subsequent to the measurement date	<u>2,271,978</u>	
Totals	<u>\$ 2,615,307</u>	<u>\$ 1,489,517</u>

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions is reflected as an increase to unrestricted net position in the amount of \$1,125,790. The City reported \$2,271,978 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense for the measurement periods as follows:

Year ended <u>June 30,</u>	
2016	\$ (453,299)
2017	(453,299)
2018	(453,299)
2019	279,688
2020	<u>(65,979)</u>
	<u><u>\$(1,146,188)</u></u>

Actuarial Assumptions

The total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to 2015 measurements:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

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. 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 July 1, 2005 – June 30, 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%	(1.00)-0.28%
Domestic equity	30%	3.00%
International equity	20%	4.00-6.00%
Real estate	10%	3.50%
Private equity	5%	5.50%
Private debt	5%	4.50%
Opportunistic	5%	2.75%
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 to 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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability	\$ 33,067,373	\$ 25,120,120	\$ 18,345,041

NOTE 9—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 eligible to receive the benefits upon retirement with an attained age of 60 and at least 10 years of service or a combined age and service of 70 years. Police officers and firefighters are eligible to receive this benefit upon retirement with an attained age of 45 with at least 20 years of service. All school employees are eligible to receive coverage upon retirement. Teachers are eligible to receive retiree medical coverage at no cost until age 65 if they were 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, 2015, the most recent actuarial valuation date, approximately 21 retirees and 350 active employees meet the eligibility requirements for medical benefits and approximately 15 retirees and 89 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 2016 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 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, 2016 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, 2015 is as follows:

Annual Required Contribution (ARC)	\$ 1,156,821
Interest on Net OPEB obligation (NOO)	121,101
NOO amortization adjustment to ARC	<u>(175,081)</u>
Annual OPEB cost	1,102,841
Contributions made	<u>(371,405)</u>
Increase in Net OPEB obligation	731,436
Net OPEB obligation - beginning of year	<u>3,027,515</u>
Net OPEB obligation - end of year	<u>\$ 3,758,951</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

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, 2016, 2015 and 2014 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2016	\$ 1,102,841	33.68%	\$ 3,758,951
6/30/2015	\$ 838,716	54.28%	\$ 3,027,515
6/30/2014	\$ 847,707	40.52%	\$ 2,644,035

The City's net OPEB obligation as of June 30, 2016, is recognized as a liability in these financial statements.

Funded Status and Funding Progress for OPEB

The funded status of the plan as of July 1, 2015, the date of the most recent actuarial valuation update is as follows:

Actuarial Accrued Liability (AAL)	\$ 8,538,527
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 8,538,527</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 16,635,907
UAAL as a percentage of covered payroll	51.3%

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, 2015 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 City employs the Pay-as-you-go basis to fund the plan. The actuarial assumptions included a 4.0% investment rate of

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

return and an initial annual healthcare cost trend of 7.0% reduced to an ultimate 4.0% long-term rate for all healthcare benefits after twenty 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 an open group basis. This has been calculated assuming the amortization payment increases at a rate of 5.0% per year.

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 potentially responsible party, respectively. The total estimated pollution remediation liability and the estimated recoveries from the potentially responsible party are recognized in these financial statements.

On September 9, 2005, the physical construction of the remedy was completed and minor punch list items remained. The EPA requires the City to perform certain maintenance and monitoring functions at the landfill through September 2056. As of June 30, 2016, the City estimates the pollution remediation obligation to be \$5,768,018 and estimated recoveries from the potentially responsible party of \$2,855,169. The estimated obligation was calculated using the expected cash flow technique measured at current value. In making this estimate, the City assumed a 70% likelihood current monitoring procedures would be adequate and 30% likelihood additional monitoring procedures would be required through 2056 and there would be no unforeseen repairs or changes in EPA's evaluation of the remediation process. This estimate has the potential to changes due to factors such as price increases or decreases, changes in technology, or changes in applicable laws or regulations.

NOTE 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, 2016 are as follows:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

	Due from			Totals
	General Fund	School Capital Projects Fund	Nonmajor Governmental Funds	
General Fund		\$ 853,666	\$ 355,928	\$ 1,209,594
Nonmajor Governmental Funds	\$ 384,343			384,343
Water Fund	1,909,750			1,909,750
Sewer Fund	2,064,315			2,064,315
Nonmajor Enterprise Fund	64,660			64,660
Agency Funds	116,906			116,906
	<u>\$ 4,539,974</u>	<u>\$ 853,666</u>	<u>\$ 355,928</u>	<u>\$ 5,749,568</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, 2016 are as follows:

	Transfer from		Totals
	General Fund	Nonmajor Governmental Funds	
General Fund		\$ 308,869	\$ 308,869
School Capital Projects Fund	\$ 371,000		371,000
Nonmajor Governmental Funds	500,000		500,000
	<u>\$ 871,000</u>	<u>\$ 308,869</u>	<u>\$ 1,179,869</u>

NOTE 12—RESTRICTED NET POSITION

Net position is restricted for specific purposes as follows:

	Governmental Activities
Permanent Funds - Principal	\$ 213,985
Permanent Funds - Income	26,938
Debt service	84,840
Pollution remediation	6,951
Food service operations	94,537
Police forfeiture	87,753
Grants	72,816
	<u>\$ 587,820</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

NOTE 13—COMPONENTS OF FUND BALANCE

The components of the City's fund balance for its governmental funds at June 30, 2016, are as follows:

	General Fund	School Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable for:				
Prepaid expenses	\$ 78,691			\$ 78,691
Permanent Funds - principal			\$ 213,985	213,985
Restricted for:				
Debt service	84,840			84,840
Pollution remediation	6,951			6,951
Permanent Funds - income			26,938	26,938
Food service operations			94,537	94,537
Police forfeiture			87,753	87,753
Grants			72,816	72,816
Committed for:				
Capital Reserve	521,725			521,725
Encumbrances	763,033			763,033
Transportation improvement projects			686,760	686,760
Conservation			91,179	91,179
Cable Communications			254,154	254,154
School operations			126,144	126,144
Assigned for:				
Encumbrances	55,472			55,472
Unassigned:				
Unassigned - General operations	4,195,743			4,195,743
Capital Projects (deficit)		\$ (957,051)	(4,816)	(961,867)
	<u>\$ 5,706,455</u>	<u>\$ (957,051)</u>	<u>\$ 1,649,450</u>	<u>\$ 6,398,854</u>

NOTE 14—COMMITMENTS

Waste Disposal and Recycling

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

For the year ended June 30, 2016, the City expended \$335,412 and \$160,964 for solid waste and recycling services, respectively, under the terms of the agreement.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

NOTE 15—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$834,554,107 as of April 1, 2015) and are due in two installments on July 1, 2015 and December 4, 2015. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year-end).

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

In accordance with State law, the City collects taxes for Strafford County, an independent governmental unit, which are remitted to the County as required by law. Total taxes appropriated during the year were \$2,374,369 for Strafford County. These taxes are not recognized as revenues in these financial statements. The City bears responsibility for uncollected taxes.

NOTE 16—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, 2016, 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, 2016.

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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2016

Worker's Compensation

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

NOTE 17—CONTINGENT LIABILITIES

Litigation

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

Federal Grants

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

NOTE 18—SUBSEQUENT EVENT

Bond Issuance

During July 2016, the City issued a general obligation bond in the amount of \$1,625,000, including a premium of \$171,075, to retire the bond anticipation note issued during January 2016. The bond bears interest at 2.16% and matures on August 15, 2031.

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues:				
Taxes	\$ 24,582,899	\$ 24,582,899	\$ 24,559,866	\$ (23,033)
Licenses and permits	1,579,625	1,579,625	1,879,735	300,110
Intergovernmental	10,313,670	10,313,670	10,294,360	(19,310)
Charges for services	860,992	860,992	920,532	59,540
Interest income	20,000	20,000	42,192	22,192
Miscellaneous	311,210	311,210	550,820	239,610
Total Revenues	<u>37,668,396</u>	<u>37,668,396</u>	<u>38,247,505</u>	<u>579,109</u>
Expenditures:				
Current operations:				
Elected leadership	123,811	123,811	119,815	3,996
City management	469,446	469,446	456,779	12,667
Finance and administration	1,164,492	1,164,492	1,100,815	63,677
Development services	961,255	961,255	913,511	47,744
Fire and rescue	2,125,640	2,155,640	2,127,986	27,654
Police	3,442,311	3,542,311	3,487,832	54,479
Public works and utilities	2,364,565	2,234,565	2,107,217	127,348
School	26,102,271	26,473,271	26,397,686	75,585
Other	279,885	279,885	241,234	38,651
Capital outlay	254,594	254,594	242,583	12,011
Debt service:				
Principal retirement	849,175	849,175	849,175	-
Interest and fiscal charges	256,792	256,792	256,791	1
Total Expenditures	<u>38,394,237</u>	<u>38,765,237</u>	<u>38,301,424</u>	<u>463,813</u>
Excess revenues over (under) expenditures	<u>(725,841)</u>	<u>(1,096,841)</u>	<u>(53,919)</u>	<u>1,042,922</u>
Other financing sources (uses):				
Transfers in	-	-	391,612	391,612
Transfers out	(106,159)	(606,159)	(606,159)	-
Total other financing sources (uses)	<u>(106,159)</u>	<u>(606,159)</u>	<u>(214,547)</u>	<u>391,612</u>
Net change in fund balance	(832,000)	(1,703,000)	(268,466)	1,434,534
Fund balance at beginning of year				
- Budgetary Basis	<u>5,305,591</u>	<u>5,305,591</u>	<u>5,305,591</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 4,473,591</u>	<u>\$ 3,602,591</u>	<u>\$ 5,037,125</u>	<u>\$ 1,434,534</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, 2016

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2011	\$ -	\$ 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%
7/1/2015	\$ -	\$ 8,538,527	\$ 8,538,527	0%	\$ 16,635,907	51.3%

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, 2016**

	<u>For the Measurement Period Ended June 30:</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
City's proportion of the net pension liability (asset)	0.6341%	0.6394%	0.6300%
City's proportionate share of the net pension liability (asset)	\$ 25,120,120	\$ 24,002,258	\$ 27,115,078
City's covered-employee payroll	\$ 16,218,949	\$ 15,764,272	\$ 15,319,843
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	154.88%	152.26%	176.99%
Plan fiduciary net position as a percentage of the total pension liability	65.47%	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, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 2,271,978	\$ 2,127,336	\$ 2,074,520	\$ 1,566,589
Contributions in relation to the contractually required contribution	<u>(2,271,978)</u>	<u>(2,127,336)</u>	<u>(2,074,520)</u>	<u>(1,566,589)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 16,427,053	\$ 16,218,949	\$ 15,764,272	\$ 15,319,843
Contributions as a percentage of covered-employee payroll	13.83%	13.12%	13.16%	10.23%

See accompanying notes to the required supplementary information

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

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

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Per Exhibit D	\$ 38,888,318	\$ 38,539,230
Difference in property taxes meeting susceptible to accrual criteria	(80,879)	
Encumbrances - June 30, 2015		(224,553)
Encumbrances - June 30, 2016		818,505
Capital lease activity	(183,188)	(183,188)
Non-budgetary revenues and expenditures	(67,877)	(148,570)
Budgetary transfers in and out	82,743	106,159
Per Schedule 1	<u>\$ 38,639,117</u>	<u>\$ 38,907,583</u>

NOTE 2—BUDGETARY FUND BALANCE

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

Nonspendable for:	
Prepaid expenses	\$ 78,691
Assigned for:	
Designated to offset subsequent fiscal year tax rate	885,000
Unassigned for:	
General operations	<u>4,073,434</u>
	<u>\$ 5,037,125</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
For the Year Ended June 30, 2016

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

For the July 1, 2015 actuarial valuation, the City changed its amortization method from a closed group, level dollar amortization over a maximum allowable 30 year period to an open, level dollar amortization over a maximum allowable period of 30 years. The City's mortality tables were updated from the RP-2000 healthy mortality table projected generationally with scale AA to the RP-2014 combined healthy mortality table (adjusted back to 2006) projected generationally with scale MP-2015. Additionally, the City's health trend rate assumption was changed from an initial 8.0% in fiscal year 2014 and 5.0% ultimate in fiscal year 2020 to 7.0% initial in fiscal year 2016 and 4.0% ultimate in fiscal year 2036.

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, 2016

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Total Federal Expenditures
DEPARTMENT OF AGRICULTURE		
Pass Through Payments from New Hampshire		
Department of Education		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 108,572
National School Lunch Program	10.555	
School Lunch		316,181
Commodities		44,859
		<u>361,040</u>
Total Child Nutrition Cluster		<u>469,612</u>
Fresh Fruit and Vegetable Program	10.582	<u>40,398</u>
Total Department of Agriculture		<u>510,010</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Pass Through Payments from the New Hampshire		
Community Development Finance Authority		
Community Development Block Grants/State's Program and		
Non-Entitlement Grants in Hawaii	14.228	
#15-218-CDHS		<u>49</u>
Total Department of Housing and Urban Development		<u>49</u>
DEPARTMENT OF THE INTERIOR		
Pass Through Payments from New Hampshire		
Division of Historical Resources		
Historic Preservation Fund Grants-In-Aid	15.904	
#CLG-P15AS00020-02		<u>103</u>
Outdoor Recreation, Acquisition, Development and Planning	15.916	
#33-00694		<u>841</u>
Total Department of the Interior		<u>944</u>
DEPARTMENT OF JUSTICE		
Pass Through Payments from the County of Strafford,		
New Hampshire		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	
#2015-DJ-BX-00271		<u>11,564</u>
Total Department of Justice		<u>11,564</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, 2016

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Total Federal Expenditures
DEPARTMENT OF TRANSPORTATION		
Pass Through Payments from the New Hampshire Department of Highway Safety and Transportation Highway Planning and Construction	20.205	
NH9-#19274.00#12228		314,746
NH9-#19274.00#12228A		283,337
#X-A001(109)		81,944
		<u>680,027</u>
 Highway Safety Cluster:		
State and Community Highway Safety	20.600	
#315-15A-019		227
#315-15A-187		3,741
#315-15A-188		1,854
		<u>5,822</u>
 Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	
#308-15A-080		788
		<u>788</u>
 Total Highway Safety Cluster		<u>6,610</u>
 Total Department of Transportation		<u>686,637</u>
 DEPARTMENT OF EDUCATION		
Pass Through Payments from New Hampshire Department of Education		
Title I Grants to Local Educational Agencies	84.010	
#50131		48,365
#50211		11,115
#51519		14,280
#60131		691,439
#60211		74,167
#60300		14,960
#60330		14,755
#61519		26,250
		<u>895,331</u>
 Career and Technical Education - Basic Grants to States	84.048	
#55034		6,095
#65034		99,428
		<u>105,523</u>
 Special Education - Preschool Grants	84.173	
		<u>2,716</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, 2016

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Total Federal Expenditures
DEPARTMENT OF EDUCATION (CONTINUED)		
Twenty-First Century Community Learning Centers #65326	84.287	<u>159,278</u>
Special Educatoin - State Personnel Development #52650 #62631	84.323	<u>1,462</u> <u>24</u> <u>1,486</u>
English Language Acquisition State Grants #40807 #50807 #50901 #60807	84.365	<u>1,924</u> <u>13,812</u> <u>4,457</u> <u>7,216</u> <u>27,409</u>
Improving Teacher Quality State Grants #54931 #55375 #64931 #65375	84.367	<u>11,215</u> <u>14,626</u> <u>114,255</u> <u>8,651</u> <u>148,747</u>
Total Department of Education		<u>1,340,490</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Pass Through Payments from the New Hampshire Department of Health and Human Services Drug-Free Communities Support Program Grants #20829	93.276	<u>30,330</u>
Total Department of Health and Human Services		<u>30,330</u>
DEPARTMENT OF HOMELAND SECURITY		
Pass Through Payments from New Hampshire Department of Safety Staffing for Adequate Fire and Emergency Response (SAFER) #EMW-2013-FF-00397	97.083	<u>54,219</u>
Total Department of Homeland Security		<u>54,219</u>
Total Expenditures of Federal Awards		<u>\$ 2,634,243</u>

See notes to the schedule of expenditures of federal awards

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

NOTE 1—BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the City of Somersworth, New Hampshire (the City) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedules presents only a selected portion of the operations of the City of Somersworth, New Hampshire, it is not intended to and does not present the financial position or changes in net position of the City of Somersworth, New Hampshire.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursements. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3—INDIRECT COST RATE

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

NOTE 4—RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

Major Funds:	
General Fund	\$ 6,610
Nonmajor Funds	<u>2,582,774</u>
	<u>\$ 2,589,384</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, 2016, 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 9, 2017.

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

Manchester, New Hampshire
March 9, 2017

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Somersworth, New Hampshire's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Somersworth, New Hampshire's major federal programs for the year ended June 30, 2016. The City of Somersworth, New Hampshire's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Somersworth, New Hampshire complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

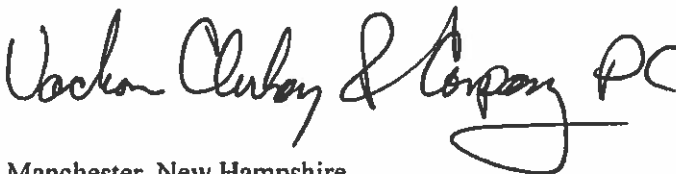
Report on Internal Control Over Compliance

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

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

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

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

A handwritten signature in black ink, reading "Vackar Cluby & Company PC". The signature is fluid and cursive, with a large, stylized "V" at the beginning and a long, sweeping underline that extends to the right.

Manchester, New Hampshire
March 9, 2017

**City of Somersworth, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016**

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?	<u> </u> yes	<u> X </u> no	
Significant deficiency(ies) identified	<u> </u> yes	<u> X </u> none reported	
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no	

Federal Awards

Internal Control over major programs:			
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
Significant deficiency(ies) identified	<u> </u> yes	<u> X </u> none reported	
Type of auditor's report issued on compliance for major federal programs:	<u>Unmodified</u>		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> </u> yes	<u> X </u> no	

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and B program:	\$ <u>750,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no

Section II--Financial Statement Findings

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

Section III--Federal Award Findings and Questioned Costs

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