

CITY OF SOMERSWORTH, NEW HAMPSHIRE

Financial Statements

With Schedule of Expenditures of Federal Awards

June 30, 2013

and

Independent Auditor's Report

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

**Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance**

Schedule of Findings and Questioned Costs

CITY OF SOMERSWORTH, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2013

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**CITY OF SOMERSWORTH, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2013**

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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, 2013, 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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress for other post-employment benefits on pages i-viii and 33-36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Somersworth, New Hampshire's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2014 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.

Jachon Clukay & Company PC

Manchester, New Hampshire

February 11, 2014

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, 2013. We encourage readers to consider the information here in conjunction with additional information that we have furnished in our letter of transmittal.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$25,108,709, presented as “net position” shown on the Statement of Net Position for the Total Primary Government. The City’s Net Position increased by \$2,282,318. The City’s Net Position for Governmental Activities was restated for fiscal year ending June 30, 2012 to reflect a restatement of a pollution remediation obligation.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$3,958,247, a change of (\$1,220,707) in comparison with the prior year. This includes activity from the Capital Projects Fund for downtown improvements and replacement of HVAC units with a balance of (\$984,100). This deficit balance is the result of a temporary timing difference in expenditures and revenue recognition. The change in the General Fund and Non-major funds is (\$236,607) in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,046,522, a change of (\$186,261) in comparison with the prior year. Due to City Council action, \$325,000 of the General Fund fund balance has been designated for future years’ expenditures and classified as assigned.
- Total bonds payable at the close of the current fiscal year was \$34,748,069, a change of \$(2,111,517) in comparison to the prior year. Additionally, the City has authorized and unissued debt in the amount of \$5,770,000 as of June 30, 2013.

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	
	2013	2012	2013	2012	2013	2012
Current and other Assets	\$19,900	\$19,297	\$3,779	\$2,868	\$23,679	\$22,165
Capital Assets	38,642	38,456	20,425	21,340	59,067	59,796
Total Assets	58,542	57,753	24,204	24,208	82,746	81,961
Total deferred outflow of resources	-	-	-	-	-	-
Long-term Liabilities outstanding	30,180	32,509	12,113	13,014	42,293	45,523
Other Liabilities	5,061	3,371	1,084	1,073	6,145	4,444
Total Liabilities	35,241	35,880	13,197	14,087	48,438	49,967
Total deferred inflow of resources	9,199	9,168	-	-	9,199	9,168
Net Position:						
Invested in capital assets, net	16,898	14,371	9,167	9,287	26,065	23,658
Restricted	275	255	-	-	275	255
Unrestricted (Deficit)	(3,071)	(1,921)	1,840	834	(1,231)	(1,087)
Total Net Position	\$14,102	\$12,705	\$11,007	\$10,121	\$25,109	\$22,826

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,467	\$ 2,292	\$ 5,012	\$ 4,992	\$ 7,479	\$ 7,284
Operating grants and contributions	10,802	11,482	-	-	10,802	11,482
Capital grants and contributions	109	59	60	64	169	123
General revenues:						
Taxes	22,189	21,063	-	-	22,189	21,063
Licenses and Permits	1,486	1,353	-	-	1,486	1,353
Intergovernmental	525	526	-	-	525	526
Interest	20	36	-	-	20	36
Miscellaneous	<u>266</u>	<u>530</u>	<u>64</u>	<u>59</u>	<u>330</u>	<u>589</u>
Total revenues	37,864	37,341	5,136	5,115	43,000	42,456
Expenses:						
General government	1,577	1,522	-	-	1,577	1,522
Public safety	5,566	5,400	-	-	5,566	5,400
Highways and streets	2,135	2,162	-	-	2,135	2,162
Health and welfare	248	249	-	-	248	249
Culture and recreation	418	626	-	-	418	626
School department	26,069	25,791	-	-	26,069	25,791
Interest	454	459	-	-	454	459
Other	-	-	-	-	-	-
Water operations	-	-	1,835	1,745	1,835	1,745
Sewer operations	-	-	2,062	2,117	2,062	2,117
Solid waste operations	<u>-</u>	<u>-</u>	<u>353</u>	<u>341</u>	<u>353</u>	<u>341</u>
Total expenses	<u>36,467</u>	<u>36,209</u>	<u>4,250</u>	<u>4,203</u>	<u>40,717</u>	<u>40,412</u>
Change in net position before transfers	1,397	1,132	886	912	2,283	2,044
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	1,397	1,132	886	912	2,283	2,044
Net position – beginning, as restated	<u>12,705</u>	<u>11,573</u>	<u>10,121</u>	<u>9,209</u>	<u>22,826</u>	<u>20,782</u>
Net position - end of the year	<u>\$14,102</u>	<u>\$12,705</u>	<u>\$11,007</u>	<u>\$10,121</u>	<u>\$25,109</u>	<u>\$22,826</u>

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 \$25,108,709, a change of \$2,282,318 from the prior year as restated.

The largest portion of the City's net position, \$26,064,583 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$274,508 represents resources that are subject to external restrictions on how they may be used. The remaining balance represents unrestricted (deficit) in net position of (\$1,230,382). The deficit in net position is due to a restatement in post closure care cost to more properly reflect the estimated liability for pollution remediation obligations in accordance with GASB 49.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$1,396,952. Key elements of this change are as follows:

	Governmental <u>Activities</u>
General fund operating results, as disclosed in Exhibit D	\$ (74,366)
Non-major funds - accrual basis	(1,146,341)
Other GAAP accruals	<u>2,617,659</u>
Total	<u>\$1,396,952</u>

Business-Type Activities. Business-type activities for the year resulted in a change in net position of \$885,366. Key elements of this change are as follows:

Water Fund	\$491,401
Sewer Fund	391,128
Solid Waste Fund	<u>2,837</u>
Total	<u>\$885,366</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 \$3,958,247, a change of \$(1,220,707) in comparison with the prior year. Key elements of this change are as follows:

	Governmental Funds
General fund operating results, as disclosed below	\$ (74,366)
Non-major fund operating results	<u>(1,146,341)</u>
Total	<u>\$ (1,220,707)</u>

The general fund is the main operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,046,522 while total fund balance was \$4,172,208. 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 changed by (\$74,366) during the current fiscal year. Key factors in this change are as follows:

	General Fund
Actual revenues in excess of budgeted amounts	\$ 20,918
Actual expenditures less than appropriated amounts	438,425
Property tax collections exceeding (less than) net tax levy	(62,113)
Use of fund balance as funding source	(596,000)
Excess of current year encumbrances over prior year	11,983
Non-budgetary Revenues and Expenses:	
Capital Reserve Funds	132,585
Landfill Trust Fund	<u>(20,164)</u>
Total	<u>(\$ 74,366)</u>

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

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

Unrestricted net assets of the enterprise funds at the end of the year are \$1,840,212, a change of \$1,005,722 in comparison with the prior year.

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget increased by \$361,762. During March 2013, the Somersworth City Council adopted Ordinance 11-13 providing a supplemental appropriation in the amount of \$246,000 for road improvements on a portion of High Street.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets.

Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 59,068,028 (net of accumulated depreciation), a change of (\$727,920) from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Long-term debt.

At the end of the current fiscal year, total bonded debt outstanding was \$ 34,748,069, 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 2013 saw a continued rise in economic activity through new business starts in the City. The average unemployment rate was 5.42% which kept Somersworth in line with the average unemployment rate of 5.1% for the State of New Hampshire. Other positive economic indicators include the continued hiring at Contitech, the City's largest employer.

A significant expansion in neighboring Rochester has also resulted in an increase in interest of the few remaining commercial lots on Route 108. A recent study by PolEcon Research stated that the "Locus of economic activity in New Hampshire is shifting to the seacoast." This is evidenced in the increased development that includes an ambulatory surgical center and a major retail center that is in the design and permitting phase.

The City embarked on a two year rehabilitation and revitalization project of the downtown area during 2013. This plan is comprised of three separate projects that include the rehabilitation of the Somersworth/Berwick Bridge, replacement of the water, sewer and drainage systems along a portion of High St., Market St. and a portion of Main St. and a Transportation Enhancement grant that will result in new sidewalks, streetscape enhancements and pedestrian safety.

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, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 14,014,543		\$ 14,014,543
Investments	1,644,398		1,644,398
Taxes receivable, net	1,188,097		1,188,097
Accounts receivable, net	165,346	\$ 898,981	1,064,327
Remediation recovery receivable	79,200		79,200
Due from other governments	584,867	122,388	707,255
Internal balances	(1,158,346)	1,158,346	-
Prepaid expenses	32,412		32,412
Inventory		130,078	130,078
Total Current Assets	<u>16,550,517</u>	<u>2,309,793</u>	<u>18,860,310</u>
Noncurrent Assets:			
Remediation recovery receivable	3,348,750		3,348,750
Due from other governments		1,468,649	1,468,649
Capital assets:			
Non-depreciable capital assets	3,892,536	500,895	4,393,431
Depreciable capital assets, net	<u>34,750,310</u>	<u>19,924,287</u>	<u>54,674,597</u>
Total Noncurrent Assets	<u>41,991,596</u>	<u>21,893,831</u>	<u>63,885,427</u>
Total Assets	<u>58,542,113</u>	<u>24,203,624</u>	<u>82,745,737</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	1,281,174	82,788	1,363,962
Accrued expenses	286,617	88,228	374,845
Retainage payable	52,503		52,503
Bond anticipation notes	791,590		791,590
Current portion of bonds payable	2,360,421	913,136	3,273,557
Current portion of capital leases payable	114,352		114,352
Current portion of compensated absences payable	15,000		15,000
Current portion of estimated pollution remediation obligation	<u>160,000</u>		<u>160,000</u>
Total Current Liabilities	<u>5,061,657</u>	<u>1,084,152</u>	<u>6,145,809</u>
Noncurrent Liabilities:			
Bonds payable	19,537,980	11,936,532	31,474,512
Capital leases payable	176,571		176,571
Compensated absences payable	1,658,154	78,311	1,736,465
Other post-employment benefits payable	2,041,958	97,866	2,139,824
Estimated pollution remediation obligation	<u>6,765,151</u>		<u>6,765,151</u>
Total Noncurrent Liabilities	<u>30,179,814</u>	<u>12,112,709</u>	<u>42,292,523</u>
Total Liabilities	<u>35,241,471</u>	<u>13,196,861</u>	<u>48,438,332</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned property tax revenue	<u>9,198,696</u>		<u>9,198,696</u>
Total Deferred Inflows of Resources	<u>9,198,696</u>	<u>-</u>	<u>9,198,696</u>
NET POSITION			
Net investment in capital assets	16,898,032	9,166,551	26,064,583
Restricted	274,508		274,508
Unrestricted (Deficit)	<u>(3,070,594)</u>	<u>1,840,212</u>	<u>(1,230,382)</u>
Total Net Position	<u>\$ 14,101,946</u>	<u>\$ 11,006,763</u>	<u>\$ 25,108,709</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, 2013

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental Activities:							
General government	\$ 1,576,611	\$ 139,347			\$ (1,437,264)		\$ (1,437,264)
Public safety	5,566,215	112,582	\$ 118,772	\$ 20,593	(5,314,268)		(5,314,268)
Highways and streets	1,969,023	2,749	193,597	48,066	(1,724,611)		(1,724,611)
Sanitation	165,581				(165,581)		(165,581)
Health and welfare	248,359				(248,359)		(248,359)
Culture and recreation	410,847	68,381	10,000	40,722	(291,744)		(291,744)
Conservation	250				(250)		(250)
Economic development	7,145				(7,145)		(7,145)
Education	25,350,967	1,849,228	9,218,161		(14,283,578)		(14,283,578)
Food service	717,836	294,151	424,496		811		811
Debt service	453,903		836,553		382,650		382,650
Total governmental activities	<u>36,466,737</u>	<u>2,466,438</u>	<u>10,801,579</u>	<u>109,381</u>	<u>(23,089,339)</u>	<u>\$ -</u>	<u>(23,089,339)</u>
Business-type activities:							
Water	1,835,326	2,299,123				463,797	463,797
Sewer	2,061,616	2,356,979		59,764		355,127	355,127
Solid waste	352,766	355,603				2,837	2,837
Total business-type activities	<u>4,249,708</u>	<u>5,011,705</u>	<u>-</u>	<u>59,764</u>	<u>-</u>	<u>821,761</u>	<u>821,761</u>
Total primary government	<u>\$ 40,716,445</u>	<u>\$ 7,478,143</u>	<u>\$ 10,801,579</u>	<u>\$ 169,145</u>	<u>(23,089,339)</u>	<u>821,761</u>	<u>(22,267,578)</u>
General revenues:							
Property and other taxes					22,188,921		22,188,921
Licenses and permits					1,486,266		1,486,266
Grants and contributions:							
Rooms and meals tax distribution					525,369		525,369
Interest and investment earnings					20,036		20,036
Miscellaneous					265,699	63,605	329,304
Total general revenues					<u>24,486,291</u>	<u>63,605</u>	<u>24,549,896</u>
Change in net position					1,396,952	885,366	2,282,318
Net position - beginning, as restated					12,704,994	10,121,397	22,826,391
Net position - ending					<u>\$ 14,101,946</u>	<u>\$ 11,006,763</u>	<u>\$ 25,108,709</u>

See accompanying notes to the basic financial statements

EXHIBIT C
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 13,716,756	\$ 297,787	\$ 14,014,543
Investments	1,408,016	236,382	1,644,398
Taxes receivable, net	1,188,097		1,188,097
Accounts receivable	162,766	2,580	165,346
Due from other governments	40,722	544,145	584,867
Due from other funds	366,463	258,424	624,887
Prepaid expenses	32,412		32,412
Total Assets	<u>16,915,232</u>	<u>1,339,318</u>	<u>18,254,550</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 16,915,232</u>	<u>\$ 1,339,318</u>	<u>\$ 18,254,550</u>
LIABILITIES			
Accounts payable	\$ 800,943	\$ 342,723	\$ 1,143,666
Accrued expenses	116,279		116,279
Retainage payable		52,503	52,503
Due to other funds	1,554,278	366,463	1,920,741
Bond anticipation notes		791,590	791,590
Total Liabilities	<u>2,471,500</u>	<u>1,553,279</u>	<u>4,024,779</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned property tax revenue	10,271,524		10,271,524
Total Deferred Inflows of Resources	<u>10,271,524</u>	<u>-</u>	<u>10,271,524</u>
FUND BALANCES			
Nonspendable	32,412	193,680	226,092
Restricted		325,338	325,338
Committed	761,925	21,676	783,601
Assigned	331,349	229,445	560,794
Unassigned (deficit)	3,046,522	(984,100)	2,062,422
Total Fund Balances (deficit)	<u>4,172,208</u>	<u>(213,961)</u>	<u>3,958,247</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 16,915,232</u>	<u>\$ 1,339,318</u>	
Amounts reported for governmental activities in the statement of net position is different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			38,642,846
Other long-term assets are not available to pay current period expenditures, and therefore, are not reported in governmental funds			3,427,950
Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis			1,072,828
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:			
Bonds payable			(21,898,401)
Capital leases payable			(290,923)
Accrued interest on long-term obligations			(170,338)
Compensated absences payable			(1,673,154)
Other post-employment benefits payable			(2,041,958)
Estimated pollution remediation obligation			(6,925,151)
Net position of governmental activities			<u>\$ 14,101,946</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, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 22,126,808		\$ 22,126,808
Licenses and permits	1,463,946	\$ 22,320	1,486,266
Intergovernmental	9,732,769	1,703,560	11,436,329
Charges for services	1,963,074	503,364	2,466,438
Interest and investment income	8,557	11,479	20,036
Miscellaneous	334,858	10,041	344,899
Total Revenues	<u>35,630,012</u>	<u>2,250,764</u>	<u>37,880,776</u>
Expenditures:			
Current operations:			
General government	1,463,255	420	1,463,675
Public safety	5,247,564	84,197	5,331,761
Highways and streets	1,914,346	17,679	1,932,025
Sanitation	325,581		325,581
Health and welfare	248,359		248,359
Culture and recreation	363,542	11,251	374,793
Conservation		250	250
Economic development	7,145		7,145
Education	22,675,528	1,327,359	24,002,887
Food service		717,836	717,836
Capital outlay	194,026	1,420,986	1,615,012
Debt service:			
Principal retirement	2,363,130		2,363,130
Interest and fiscal charges	719,029		719,029
Total Expenditures	<u>35,521,505</u>	<u>3,579,978</u>	<u>39,101,483</u>
Excess revenues over (under) expenditures	<u>108,507</u>	<u>(1,329,214)</u>	<u>(1,220,707)</u>
Other financing sources (uses):			
Transfers in	45,518	228,391	273,909
Transfers out	(228,391)	(45,518)	(273,909)
Total other financing sources (uses)	<u>(182,873)</u>	<u>182,873</u>	<u>-</u>
Net change in fund balances	(74,366)	(1,146,341)	(1,220,707)
Fund balances at beginning of year	<u>4,246,574</u>	<u>932,380</u>	<u>5,178,954</u>
Fund balances (deficit) at end of year	<u>\$ 4,172,208</u>	<u>\$ (213,961)</u>	<u>\$ 3,958,247</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities

For the Year Ended June 30, 2013

Net Change in Fund Balances--Total Governmental Funds	\$ (1,220,707)
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.	186,696
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	62,113
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	2,363,130
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.	205,900
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.	44,037
In the statement of activities, interest is accrued on outstanding bonds and capital leases, whereas in governmental funds, an interest expenditure is reported when due.	15,189
Revenues in the governmental fund financial statements that reduce long-term assets recorded on the statement of net position are not reported as revenues in the statement of activities.	(79,200)
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.	(180,206)
Change in Net Position of Governmental Activities	<u>\$ 1,396,952</u>

See accompanying notes to the basic financial statements

EXHIBIT E
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
June 30, 2013

	Business-type Activities			
	Water	Sewer	Solid Waste	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Totals</u>
ASSETS				
Current Assets:				
Accounts receivable, net	\$ 417,425	\$ 471,843	\$ 9,713	\$ 898,981
Due from other governments		122,388		122,388
Due from other funds	837,444	277,072	43,830	1,158,346
Inventory	110,721		19,357	130,078
Total Current Assets	<u>1,365,590</u>	<u>871,303</u>	<u>72,900</u>	<u>2,309,793</u>
Noncurrent Assets:				
Due from other governments		1,468,649		1,468,649
Capital assets:				
Non-depreciable capital assets	144,510	356,385		500,895
Depreciable capital assets, net	6,616,004	13,308,283		19,924,287
Total Noncurrent Assets	<u>6,760,514</u>	<u>15,133,317</u>	<u>-</u>	<u>21,893,831</u>
Total Assets	<u>8,126,104</u>	<u>16,004,620</u>	<u>72,900</u>	<u>24,203,624</u>
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	18,235	40,177	24,376	82,788
Accrued expenses	72,903	15,325		88,228
Current portion of bonds payable	345,973	567,163		913,136
Total Current Liabilities	<u>437,111</u>	<u>622,665</u>	<u>24,376</u>	<u>1,084,152</u>
Noncurrent Liabilities:				
Bonds payable	5,319,582	6,616,950		11,936,532
Compensated absences payable	49,780	28,531		78,311
Other post-employment benefits payable	65,393	32,473		97,866
Total Noncurrent Liabilities	<u>5,434,755</u>	<u>6,677,954</u>	<u>-</u>	<u>12,112,709</u>
Total Liabilities	<u>5,871,866</u>	<u>7,300,619</u>	<u>24,376</u>	<u>13,196,861</u>
DEFERRED INFLOWS OF RESOURCES				
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	1,094,959	8,071,592		9,166,551
Unrestricted	1,159,279	632,409	48,524	1,840,212
Total Net Position	<u>\$ 2,254,238</u>	<u>\$ 8,704,001</u>	<u>\$ 48,524</u>	<u>\$ 11,006,763</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, 2013

	Business-type Activities			
	Water Fund	Sewer Fund	Solid Waste Fund	Totals
Operating revenues:				
Charges for services	\$ 2,299,123	\$ 2,356,979	\$ 355,603	\$ 5,011,705
Miscellaneous	27,604	36,001		63,605
Total operating revenues	<u>2,326,727</u>	<u>2,392,980</u>	<u>355,603</u>	<u>5,075,310</u>
Operating expenses:				
Personnel services	544,329	441,667		985,996
Contractual services	26,423	167,755	307,657	501,835
Repairs and maintenance	145,335	130,368		275,703
Administration	67,128	60,878	203	128,209
Materials and supplies	208,518	146,573	44,906	399,997
Utilities	162,903	216,890		379,793
Depreciation	424,111	645,438		1,069,549
Miscellaneous	35,855	55,100		90,955
Total operating expenses	<u>1,614,602</u>	<u>1,864,669</u>	<u>352,766</u>	<u>3,832,037</u>
Operating income	<u>712,125</u>	<u>528,311</u>	<u>2,837</u>	<u>1,243,273</u>
Non-operating (expenses):				
Interest expense	<u>(220,724)</u>	<u>(196,947)</u>		<u>(417,671)</u>
Total non-operating (expenses)	<u>(220,724)</u>	<u>(196,947)</u>	<u>-</u>	<u>(417,671)</u>
Income before capital contributions	491,401	331,364	2,837	825,602
Capital contributions		59,764		59,764
Change in net position	491,401	391,128	2,837	885,366
Total net position at beginning of year, as restated	<u>1,762,837</u>	<u>8,312,873</u>	<u>45,687</u>	<u>10,121,397</u>
Total net position at end of year	<u>\$ 2,254,238</u>	<u>\$ 8,704,001</u>	<u>\$ 48,524</u>	<u>\$ 11,006,763</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, 2013

	Business-type Activities			
	Water Fund	Sewer Fund	Solid Waste Fund	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 2,241,149	\$ 2,264,290	\$ 363,231	\$ 4,868,670
Cash paid to suppliers	(832,165)	(926,950)	(339,996)	(2,099,111)
Cash paid to employees	(338,597)	(268,761)		(607,358)
Net cash provided by operating activities	<u>1,070,387</u>	<u>1,068,579</u>	<u>23,235</u>	<u>2,162,201</u>
Cash flows from capital financing activities:				
Purchases of capital assets	(33,691)	(121,242)		(154,933)
Capital contributions		182,152		182,152
Principal paid on long-term debt	(338,976)	(555,716)		(894,692)
Interest paid on long-term debt	(225,430)	(219,308)		(444,738)
Net cash (used) for capital financing activities	<u>(598,097)</u>	<u>(714,114)</u>	<u>-</u>	<u>(1,312,211)</u>
Net increase in cash and cash equivalents	472,290	354,465	23,235	849,990
Cash and cash equivalents (deficiency) at beginning of year	<u>365,154</u>	<u>(77,393)</u>	<u>20,595</u>	<u>308,356</u>
Cash and cash equivalents at end of year	<u>\$ 837,444</u>	<u>\$ 277,072</u>	<u>\$ 43,830</u>	<u>\$ 1,158,346</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 712,125	\$ 528,311	\$ 2,837	\$ 1,243,273
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	424,111	645,438		1,069,549
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Accounts receivable, net	(85,578)	(128,690)	7,628	(206,640)
Inventory	11,853		12,531	24,384
Accounts payable	4,610	8,065	239	12,914
Accrued expenses	2,966	3,747		6,713
Compensated absences payable	(15,193)	4,893		(10,300)
Other post-employment benefits payable	15,493	6,815		22,308
Net cash provided by operating activities	<u>\$ 1,070,387</u>	<u>\$ 1,068,579</u>	<u>\$ 23,235</u>	<u>\$ 2,162,201</u>
Supplemental disclosure of non-cash transactions:				
Amortization on bond premiums	<u>\$ -</u>	<u>\$ 21,956</u>	<u>\$ -</u>	<u>\$ 21,956</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, 2013

	Private- Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
ASSETS		
Cash and cash equivalents		\$ 260,711
Investments	\$ 184,523	
Due from other funds		137,508
Total Assets	<u>184,523</u>	<u>\$ 398,219</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows of Resources	<u></u>	
LIABILITIES		
Accounts payable		\$ 119
Due to student groups		83,265
Deposits		314,835
Total Liabilities	<u>-</u>	<u>\$ 398,219</u>
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources	<u></u>	
NET POSITION		
Held in trust	<u>184,523</u>	
Total Net Position	<u>\$ 184,523</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, 2013

	Private- Purpose <u>Trust Funds</u>
ADDITIONS:	
Contributions:	
Private donations	\$ 300
Total Contributions	<u>300</u>
Investment earnings:	
Interest	6,401
Realized gains on investments	22,649
Net decrease in the fair value of investments	<u>(22,085)</u>
Total Investment Earnings	<u>6,965</u>
Total Additions	<u>7,265</u>
DEDUCTIONS:	
Benefits	<u>24,889</u>
Total Deductions	<u>24,889</u>
Change in net position	(17,624)
Net position - beginning of year	<u>202,147</u>
Net position - end of year	<u>\$ 184,523</u>

See accompanying notes to the basic financial statements

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

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.

During the year ended June 30, 2013, the City implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*" Under Statement 63, the City has segregated previously reported assets and liabilities as deferred outflows of resources and deferred inflows of resources, respectively. This statement also identifies net position as the residual of all other elements presented in the statement of financial position. Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources.

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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

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

Fund Accounting

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

1. Governmental Funds:

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

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

2. Proprietary Funds:

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

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

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

The Solid Waste Fund accounts for the sale of City trash bags for which the revenue derived funds the costs of solid waste collection and disposal in the City.

The Water, Sewer and Solid Waste 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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

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 eleven 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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

1. Revenues – Exchange and Non-exchange Transactions:

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 2). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

2. Unearned Revenue:

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

3. Expenses/Expenditures:

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

Budgetary Data

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

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, 2013, the City applied \$300,000 of its unappropriated fund balance to reduce taxes.

Cash and Cash Equivalents

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

	Due from <u>other funds</u>
Proprietary Funds:	
Water Fund	\$ 837,444
Sewer Fund	277,072
Solid Waste Fund	<u>43,830</u>
	<u>\$ 1,158,346</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, 2013 are recorded as receivables net of reserves for estimated uncollectibles of \$45,915 and \$49,022 in the Water Fund and Sewer Fund, respectively.

Taxes Receivable

Taxes levied during the current fiscal year and prior and uncollected at June 30, 2013 are recorded as receivables net of reserves for estimated uncollectibles of \$125,000.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2013 are recorded as prepaid items.

Inventory

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

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

Capital Assets

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

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

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

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

Compensated Absences and Retirement Benefits

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

City teachers may be eligible to receive a retirement incentive. Upon retirement, teachers over the age of 55 years of age shall 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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

premiums as of June 30, 2013 are \$994,428 and \$151,877 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.

Net Position

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

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

Fund Balance Policy

The City complies with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which established new fund balance classifications and changes the definition of governmental fund types. Under Statement 54, the City has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. These components of fund balance are defined as follows:

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

- Unassigned Fund Balance: Amounts that are available for any purpose; these amounts are reported only in the General Fund.

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

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

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

Interfund Activity

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

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

Operating Revenues and Expenses

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. Significant estimates include accounts receivable for estimated recoveries of the pollution remediation obligations, depreciation expense, the allowance for uncollectible receivables, the estimated pollution remediation obligation, and the liability for other post-employment benefits.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 2—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Balance

As of June 30, 2013, the Capital Projects Fund for downtown improvements and replacement of HVAC units had a deficit fund balance of \$984,100. This deficit is the result of a temporary timing difference in expenditures and revenue recognition. Subsequent to year end, the City issued a general obligation bond for \$4,650,000 (see Note 18).

NOTE 3—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$843,877,236 as of April 1, 2012) and are due in two installments on July 2, 2012 and December 3, 2012. 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 \$2,230,657 for Strafford County. These taxes are not recognized as revenues in these financial statements. The City bears responsibility for uncollected taxes.

NOTE 4—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 year ended June 30, 2013, the City, excluding the school department, was a member of the New Hampshire Public Risk Management Exchange (PRIMEX). The City's school department was a member of the Local Government Center. The City currently reports all of its risk management activities in its General Fund. These Trusts are classified as "Risk Pools" in accordance with accounting principles generally accepted in the United States of America.

The Trust agreements permit the Trusts 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 Trusts foresee 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, 2013.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

Property and Liability Insurance

Both PRIMEX and the LGC provide certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of either PRIMEX or the LGC, the City shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program.

The PRIMEX 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. For the year ended June 30, 2013, the LGC Trust retained \$500,000 of each loss up to an aggregate of \$5,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

Worker's Compensation

Both PRIMEX and the LGC provide statutory worker's compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. Both Trusts are 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 programs include a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

NOTE 5—DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	\$ 14,014,543
Investments	1,644,398
Statement of fiduciary net position:	
Cash and cash equivalents	260,711
Investments	<u>184,523</u>
Total deposits and investments	<u>\$ 16,104,175</u>

Deposits and investments as of June 30, 2013 consist of the following:

Cash on hand	\$ 505
Deposits with financial institutions	14,274,749
Investments	<u>1,828,921</u>
Total deposits and investments	<u>\$ 16,104,175</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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

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, 2013, none of these investments are rated.

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the 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 \$8,164,140 was collateralized by securities held by the bank in the bank's name. As of June 30, 2013, 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		\$ 802,566
Money market utual funds		<u>25,401</u>
		<u>\$ 827,967</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.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 6—CAPITAL ASSETS

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

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013
Governmental activities:				
Capital asset not depreciated:				
Land	\$ 2,272,916			\$ 2,272,916
Easements	170,875			170,875
Construction in process		\$ 1,448,745		1,448,745
Total capital assets not being depreciated	<u>2,443,791</u>	<u>1,448,745</u>	<u>\$ -</u>	<u>3,892,536</u>
Other capital assets:				
Infrastructure	7,835,405	276,402		8,111,807
Buildings and improvements	43,817,328	59,627		43,876,955
Vehicles and equipment	<u>5,384,923</u>	<u>126,670</u>		<u>5,511,593</u>
Total other capital assets at historical cost	<u>57,037,656</u>	<u>462,699</u>	<u>-</u>	<u>57,500,355</u>
Less accumulated depreciation for:				
Infrastructure	(1,978,976)	(153,178)		(2,132,154)
Buildings and improvements	(15,082,602)	(1,249,844)		(16,332,446)
Vehicles and equipment	<u>(3,963,719)</u>	<u>(321,726)</u>		<u>(4,285,445)</u>
Total accumulated depreciation	<u>(21,025,297)</u>	<u>(1,724,748)</u>	<u>-</u>	<u>(22,750,045)</u>
Total other capital assets, net	<u>36,012,359</u>	<u>(1,262,049)</u>	<u>-</u>	<u>34,750,310</u>
Total capital assets, net	<u>\$ 38,456,150</u>	<u>\$ 186,696</u>	<u>\$ -</u>	<u>\$ 38,642,846</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 82,764
Public safety	235,156
Highways and streets	304,487
Culture and recreation	27,510
Education	<u>1,074,831</u>
Total governmental activities depreciation expense	<u>\$ 1,724,748</u>

The balance of the assets acquired through capital leases as of June 30, 2013 is as follows:

Vehicles and equipment	\$ 675,197
Less accumulated depreciation:	
Vehicles and equipment	<u>(265,723)</u>
	<u>\$ 409,474</u>

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013
Business-type activities:				
Capital asset not depreciated:				
Land	\$ 500,895			\$ 500,895
Total capital assets not being depreciated	500,895	\$ -	\$ -	500,895
Other capital assets:				
Infrastructure	10,695,784	47,838		10,743,622
Buildings and improvements	25,942,226			25,942,226
Vehicles and equipment	863,165	107,095	(52,165)	918,095
Total other capital assets at historical cost	37,501,175	154,933	(52,165)	37,603,943
Less accumulated depreciation for:				
Infrastructure	(5,565,860)	(217,314)		(5,783,174)
Buildings and improvements	(10,491,663)	(803,075)		(11,294,738)
Vehicles and equipment	(604,749)	(49,160)	52,165	(601,744)
Total accumulated depreciation	(16,662,272)	(1,069,549)	52,165	(17,679,656)
Total other capital assets, net	20,838,903	(914,616)	-	19,924,287
Total capital assets, net	\$ 21,339,798	\$ (914,616)	\$ -	\$ 20,425,182

Depreciation was charged to proprietary funds as follows:

Water fund	\$ 424,111
Sewer fund	645,438
Total Business-type activities depreciation expense	<u>\$ 1,069,549</u>

NOTE 7—DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the New Hampshire Retirement System (NHRS), a cost-sharing, multiple-employer, defined benefit pension plan administrated by the NHRS Board of Trustees. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

Funding Policy

Covered police officers and fire employees are required to contribute 11.55% and 11.80%, respectively of their covered salary, whereas teachers and general employees are required to contribute 7.0% of their covered salary. The City is required to contribute at an actuarially determined rate. The City's contribution rates for the covered payroll of police officers, fire employees, teachers, and general employees were 19.95%, 22.89%, 11.30%, and 8.80%, respectively. The City contributes 100% of the employer cost for police officers, fire employees, teachers, and general employees of the City.

Under State law (RSA-100:16), plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

of Trustees based on an actuarial valuation. The City's contributions to the NHRS for the years ending June 30, 2013, 2012 and 2011 were \$1,881,764, \$1,805,987, and \$1,457,414, respectively, equal to the required contributions for each year.

NOTE 8—OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the City provides medical, life insurance, and dental benefits to its eligible retirees. General employees are required to reach age 60 with 10 years of service or a combined age and service of 70 years to qualify for this benefit. Police officers and firefighters are eligible to receive this benefit upon retirement with an attained age of 45 with 20 years of service. All school employees are eligible to receive coverage upon retirement. Teachers are eligible to receive retiree medical coverage at no cost until age 65 if they were hired prior to May 1, 2005 and retire between the ages of 55 and 60. All other retirees and spouses of retirees pay the full cost of the health care coverage. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of July 1, 2011, the most recent actuarial valuation date, approximately 26 retirees and 292 active employees meet the eligibility requirements for medical benefits and approximately 15 retirees and 83 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 2013 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, 2013 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, 2011 is as follows:

Annual Required Contribution (ARC)	\$ 756,363
Interest on Net OPEB obligation (NOO)	72,085
NOO amortization adjustment to ARC	<u>(107,216)</u>
Annual OPEB cost	721,232
Contributions made	<u>(383,534)</u>
Increase in Net OPEB obligation	337,698
Net OPEB obligation - beginning of year	<u>1,802,126</u>
Net OPEB obligation - end of year	<u>\$ 2,139,824</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for years ending June 30, 2013, 2012 and 2011 are as follows:

Fiscal Year <u>Ended</u>	Annual OPEB Cost	Percentage of OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>
6/30/2013	\$ 721,232	53.18%	\$2,139,824
6/30/2012	\$ 730,026	44.13%	\$1,802,126
6/30/2011	\$ 786,505	45.16%	\$1,394,277

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

The City's net OPEB obligation as of June 30, 2013 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, 2011, the date of the most recent actuarial valuation update is as follows:

Actuarial Accrued Liability (AAL)	\$ 6,241,717
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 6,241,717</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 14,703,276
UAAL as a percentage of covered payroll	42.5%

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, 2011 actuarial valuation the Projected Unit Credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend of 9.0% reduced by 0.5% decrements to an ultimate 5.0% long-term rate for all healthcare benefits after eight years. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is a level dollar amortization over maximum allowable period of thirty years on a closed group basis. This has been calculated assuming the amortization payment increases at a rate of 5.0% per year.

NOTE 9—SHORT-TERM OBLIGATIONS

The City issued bond anticipation notes during the year. These borrowings are to assist in the payment of infrastructure improvements in the downtown area and replacement of five HVAC units in school buildings and are guaranteed to be repaid from the future bond proceeds. This note matured and the balance was paid off by the City in July 2013 from bonds issued subsequent to year end (see Note 18).

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

The changes in the City's short-term obligations for the year ended June 30, 2013 are as follows:

Balance - July 1, 2012	\$ -
Additions	791,590
Reductions	-
Balance - June 30, 2013	<u>\$ 791,590</u>

NOTE 10—LONG-TERM OBLIGATIONS

General Long-term Obligations

The changes in the City's long-term obligations for the year ended June 30, 2013 are as follows:

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Due Within One Year
Governmental activities:					
Bonds payable	\$ 23,267,103		\$(2,363,130)	\$ 20,903,973	\$ 2,314,687
Unamortized bond premium	1,038,465		(44,037)	994,428	45,734
Total Bonds payable	24,305,568	\$ -	(2,407,167)	21,898,401	2,360,421
Capital leases payable	496,823		(205,900)	290,923	114,352
Compensated absences	1,648,338	262,374	(237,558)	1,673,154	15,000
Total governmental activities	<u>\$ 26,450,729</u>	<u>\$ 262,374</u>	<u>\$(2,850,625)</u>	<u>\$ 23,862,478</u>	<u>\$ 2,489,773</u>
Business-type activities:					
Bonds payable	\$ 13,592,483		\$ (894,692)	\$ 12,697,791	\$ 892,300
Unamortized bond premium	173,833		(21,956)	151,877	20,836
Total Bonds payable	13,766,316	\$ -	(916,648)	12,849,668	913,136
Compensated absences	88,611	9,955	(20,255)	78,311	
Total business-type activities	<u>\$ 13,854,927</u>	<u>\$ 9,955</u>	<u>\$ (936,903)</u>	<u>\$ 12,927,979</u>	<u>\$ 913,136</u>

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

General Obligation Bonds

Governmental Activities

Bonds payable at June 30, 2013 are comprised of the following individual issues:

	Original Issue Amount	Interest Rate	Final Maturity Date	Balance at 6/30/13
1998 Road improvement bonds	\$ 1,000,000	3.9-5.0%	August 2013	\$ 65,000
1999 High Street Corridor bonds	1,300,000	4.5-5.25%	August 2019	455,000
2000 New City Hall bonds	1,400,000	4.75-5.25%	January 2021	595,000
2000 Plaza Upgrade bonds	475,000	4.75-5.125%	January 2015	55,000

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

2001 Landfill Cleanup bonds	750,000	4.125-4.80%	August 2016	200,000
2001 New City Hall bonds	450,000	4.125-4.80%	August 2016	120,000
2005 Capital Improvement bonds	1,395,355	4.0-5.0%	August 2015	414,900
2006 Police Station bonds	3,426,127	4.0-5.0%	August 2021	2,050,000
1996 School Bond bonds	5,300,000	5.625-5.75%	August 2016	1,060,000
1999 Kindergarten bonds	310,000	4.50-5.25%	August 2019	105,000
2008 School land bonds	1,338,545	4.00-5.25%	August 2018	800,000
2009 School bonds	18,953,000	3.73%	January 2030	14,984,073
Totals				20,903,973
Add: Unamortized bond premium				994,428
				<u>\$ 21,898,401</u>

Debt service requirements to retire general obligation bonds outstanding at June 30, 2013 are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 2,314,687	\$ 495,938	\$ 2,810,625
2015	2,195,430	490,179	2,685,609
2016	2,146,757	483,630	2,630,387
2017	1,934,652	479,468	2,414,120
2018	1,539,511	487,226	2,026,737
2019-2023	5,935,038	2,760,956	8,695,994
2024-2028	3,636,774	3,544,227	7,181,001
2029-2030	1,201,124	1,667,276	2,868,400
Total	20,903,973	10,408,900	31,312,873
Add: <i>Bond Premium</i>	994,428		994,428
Total	<u>\$ 21,898,401</u>	<u>\$ 10,408,900</u>	<u>\$ 32,307,301</u>

As included on the Statement of Activities (Exhibit B), interest for the year ended June 30, 2013 was \$437,795 on general obligation debt for governmental activities.

Business-type Activities

Bonds payable at June 30, 2013 are comprised of the following individual issues:

	Original Issue Amount	Interest Rate	Maturity Date	Balance at 6/30/13
<u>Water Fund:</u>				
Water High Lift Project bonds	\$ 650,000	3.4725%	October 2016	\$ 173,334
Water treatment plant upgrade bonds	1,843,500	4.25-5.25%	January 2028	1,370,000
Water treatment plant bonds	5,000,000	3.488%	April 2028	4,122,221
				<u>5,665,555</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

Sewer Fund:

Wastewater refunding bonds	\$ 7,810,000	2.0-4.0%	January 2026	6,570,000
Wastewater treatment facility bonds	524,944	2.952%	January 2029	462,236
				<u>7,032,236</u>
Add: Unamortized bond premium				<u>151,877</u>
				<u>7,184,113</u>
				<u>\$ 12,849,668</u>

Debt service requirements to retire general obligation bonds for business-type activities at June 30, 2013 are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 892,300	\$ 325,148	\$ 1,217,448
2015	895,173	399,846	1,295,019
2016	898,316	369,609	1,267,925
2017	911,741	334,094	1,245,835
2018	867,121	303,287	1,170,408
2019-2023	4,407,196	1,122,046	5,529,242
2024-2028	3,758,978	382,844	4,141,822
2029-2030	66,966	2,980	69,946
Total	<u>12,697,791</u>	<u>3,239,854</u>	<u>15,937,645</u>
Add: <i>Bond Premium</i>	<u>151,877</u>		<u>151,877</u>
Total	<u>\$ 12,849,668</u>	<u>\$ 3,239,854</u>	<u>\$ 16,089,522</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, 2013, the reimbursement was \$182,152 in the Sewer Fund.

As included on the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (Exhibit F), interest expense for the year ended June 30, 2013 was \$417,671 on general obligation debt for business-type activities.

Capital Lease Obligations

Capital lease obligations represent lease agreements entered into for the financing of equipment acquisitions. These contracts are subject to cancellation should funds not be appropriated to meet payment obligations. Amounts are annually budgeted in the applicable function. The following are the individual capital lease obligations of the governmental activities at June 30, 2013:

Equipment due in annual installments of \$30,465, including interest at 4.84%, through December 2013	\$ 29,060
Equipment due in annual installments of \$30,980, including interest of 3.40%, through December 2016	114,052

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

Equipment due in annual installments of \$35,255, including
interest of 5.02%, through October 2014 65,535

Equipment due in annual installments of \$29,926, including
interest at 4.374%, through October 2015 82,276
\$ 290,923

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2013 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 114,352	\$ 12,274	\$ 126,626
2015	88,998	7,163	96,161
2016	57,613	3,293	60,906
2017	29,960	1,020	30,980
Total	<u>\$ 290,923</u>	<u>\$ 23,750</u>	<u>\$ 314,673</u>

Authorized and Unissued Debt

The following debt was authorized and unissued as of June 30, 2013:

	<u>Amount</u>
Downtown improvements and HVAC units	\$ 4,770,000
Downtown improvements, HVAC units and bridge rehabilitation	<u>1,000,000</u>
	<u>\$ 5,770,000</u>

NOTE 11—POLLUTION REMEDIATION OBLIGATION

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

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

On September 9, 2005, the physical construction of the remedy was completed and minor punch list items remained. The EPA requires the City to perform certain maintenance and monitoring functions at the landfill through September 2056. As of June 30, 2013, the City estimates the pollution remediation obligation to be \$6,925,151 and estimated recoveries from the potentially responsible party of \$3,427,950. The estimated obligation was calculated using the expected cash flow technique measured at current value. In making this estimate, the City assumed current monitoring procedures would be adequate through 2056 and there would be no unforeseen repairs or changes in EPA's evaluation of the remediation process. This estimate has the potential to changes due to factors such as price increases or decreases, changes in technology, or changes in applicable laws or regulations.

The following is a summary of changes in the estimated pollution remediation obligation and the remediation recovery receivable for the year ended June 30, 2013:

	Pollution Remediation Obligation	Remediation Recovery Receivable
Balance - July 1, 2012	\$ 7,085,151	\$ 3,507,150
Expenditures recognized in the General Fund	(151,226)	
Reimbursement from third party		(74,857)
Net change in estimated remediation obligation/ recovery receivable	(8,774)	(4,343)
Balance - June 30, 2013	<u>\$ 6,925,151</u>	<u>\$ 3,427,950</u>

NOTE 12—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, 2013 are as follows:

	Due from		
	General Fund	Nonmajor Governmental Funds	Totals
Due to General Fund		\$ 366,463	\$ 366,463
Nonmajor Governmental Funds	\$ 258,424		258,424
Water Fund	837,444		837,444
Sewer Fund	277,072		277,072
Solid Waste Fund	43,830		43,830
Agency Funds	137,508		137,508
	<u>\$ 1,554,278</u>	<u>\$ 366,463</u>	<u>\$ 1,920,741</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

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, 2013 are as follows:

	Transfer to	Transfer from		
		General	Nonmajor	
		Fund	Governmental	Totals
			Funds	
	General Fund		\$ 45,518	\$ 45,518
	Nonmajor Governmental Funds	\$ 228,391		228,391
		<u>\$ 228,391</u>	<u>\$ 45,518</u>	<u>\$ 273,909</u>

NOTE 13—RESTRICTED NET POSITION

Net position is restricted for specific purposes as follows:

	Governmental
	Activities
Permanent Funds - Endowments	\$ 193,680
Permanent Funds - Income	18,283
Capital Projects	244,510
Grants	62,545
	<u>519,018</u>
Less unexpended bond proceeds	<u>(244,510)</u>
	<u>\$ 274,508</u>

NOTE 14—COMPONENTS OF FUND BALANCE

The components of the City's fund balance for its governmental funds at June 30, 2013 are as follows:

	General	Nonmajor	Total
	Fund	Governmental	Governmental
		Funds	Funds
Nonspendable for:			
Prepaid expenses	\$ 32,412		\$ 32,412
Endowments		\$ 193,680	193,680
Restricted for:			
Capital Projects		244,510	244,510
Endowments		18,283	18,283
Grants		62,545	62,545
Committed for:			
Capital Reserve	403,525		403,525
Landfill Trust	150,390		150,390
Encumbrances	208,010		208,010
Municipal Transportation		21,676	21,676

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

Assigned for:

Conservation	78,273	78,273
Cable Communications	8,029	8,029
School operations	128,995	128,995
Food service operations	14,148	14,148
Encumbrances	6,349	6,349
Designated to offset subsequent fiscal year tax rate	325,000	325,000

Unassigned for:

General Fund	3,046,522	3,046,522
Capital Projects (deficit)	(984,100)	(984,100)
	<u>\$ 4,172,208</u>	<u>\$ 3,958,247</u>

NOTE 15—COMMITMENTS

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

During the year ended June 30, 2013, the City expended \$301,852 and \$133,338 for solid waste and recycling services, respectively, under the terms of the agreement. The minimum future payments for the next two years are as follows:

Year Ending June 30,	Solid Waste Collection and Disposal	Recycling Collection and Disposal	Totals
2014	\$ 308,013	\$ 146,160	\$ 454,173
2015	318,775	151,326	470,101
	<u>\$ 626,788</u>	<u>\$ 297,486</u>	<u>\$ 924,274</u>

NOTE 16—CONTINGENT LIABILITIES

Litigation

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

Federal Grants

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

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 17—RESTATEMENT OF EQUITY

Governmental Activities

During the year ended June 30, 2013, it was determined that the estimated liability for postclosure care costs was overstated. Instead, an estimated liability for pollution remediation obligations less the remediation recovery receivable should have been reported in accordance with GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". The impact of the restatement on the governmental activities is as follows:

Net Position, July 1, 2012 (as previously reported)	\$ 14,657,995
Amount of restatement due to:	
Overstatement of estimated liability for postclosure care costs	1,625,000
Understatement of estimated pollution remediation obligation	(7,085,151)
Understatement of remediation recovery receivable	3,507,150
Net Position, July 1, 2012 - as restated	<u>\$ 12,704,994</u>

Business-type Activities

Effective July 1, 2012, the City retroactively changed its method of financial reporting to conform to a recent pronouncement of the Governmental Accounting Standards Board (Statement No. 65). This standard eliminates the reporting of deferred financing costs as a long-term asset and requires these expenses to be recognized in the period incurred.

Net position of the business-type activities and the Sewer proprietary fund as of July 1, 2012 have been restated as follows:

	Business-type Activities	Sewer Fund
Net Position, July 1, 2012 (as previously reported)	\$ 10,164,100	\$ 8,355,576
Amount of restatement due to:		
Reduction of deferred debt financing expense	(42,703)	(42,703)
Net Position, July 1, 2012 - as restated	<u>\$ 10,121,397</u>	<u>\$ 8,312,873</u>

NOTE 18—SUBSEQUENT EVENTS

During July 2013, the City issued general obligation bonds in the amount of \$4,650,000 for the purpose of infrastructure improvements in the downtown area and the replacement of five HVAC units in school buildings. Of the total bonds issued, \$536,000 represents a premium received on the bonds. These bonds have an interest rate of 4.10% - 5.60% and mature August 2028.

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Taxes	\$ 22,109,220	\$ 22,186,982	\$ 22,188,921	\$ 1,939
Licenses and permits	1,414,625	1,414,625	1,463,946	49,321
Intergovernmental	9,683,177	9,683,177	9,732,769	49,592
Charges for services	2,061,889	2,061,889	1,963,074	(98,815)
Interest income	20,000	20,000	20,380	380
Miscellaneous	247,250	247,250	259,233	11,983
Total Revenues	<u>35,536,161</u>	<u>35,613,923</u>	<u>35,628,323</u>	<u>14,400</u>
Expenditures:				
Current operations:				
Elected leadership	121,311	121,311	117,259	4,052
City management	292,608	292,608	286,599	6,009
Finance and administration	1,096,466	1,096,466	1,036,714	59,752
Development services	827,519	827,519	791,215	36,304
Fire and rescue	1,920,937	1,930,937	1,984,597	(53,660)
Police	3,187,409	3,187,409	3,103,793	83,616
Public works and utilities	1,979,272	2,230,272	2,089,169	141,103
School	24,832,238	24,910,000	24,731,802	178,198
Other	306,551	291,551	226,550	65,001
Capital outlay	248,600	248,600	330,550	(81,950)
Debt service:				
Principal retirement	680,000	680,000	680,000	-
Interest and fiscal charges	207,098	207,098	207,098	-
Total Expenditures	<u>35,700,009</u>	<u>36,023,771</u>	<u>35,585,346</u>	<u>438,425</u>
Excess revenues over (under) expenditures	<u>(163,848)</u>	<u>(409,848)</u>	<u>42,977</u>	<u>452,825</u>
Other financing sources (uses):				
Transfers in	1,000	39,000	45,518	6,518
Transfers out	<u>(187,152)</u>	<u>(225,152)</u>	<u>(225,152)</u>	<u>-</u>
Total other financing sources (uses)	<u>(186,152)</u>	<u>(186,152)</u>	<u>(179,634)</u>	<u>6,518</u>
Net change in fund balance	(350,000)	(596,000)	(136,657)	459,343
Fund balance at beginning of year				
- Budgetary Basis	<u>4,613,419</u>	<u>4,613,419</u>	<u>4,613,419</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 4,263,419</u>	<u>\$ 4,017,419</u>	<u>\$ 4,476,762</u>	<u>\$ 459,343</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, 2013

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

See accompanying notes to the required supplementary information

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2013

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

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

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 35,675,530	\$ 35,749,896
Difference in property taxes meeting susceptible to accrual criteria	62,113	
Encumbrances - June 30, 2012		(202,376)
Encumbrances - June 30, 2013		214,359
Budgetary transfers in and out	225,152	225,152
Non-budgetary revenues and expenditures	(288,954)	(176,533)
Per Schedule 1	<u>\$ 35,673,841</u>	<u>\$ 35,810,498</u>

NOTE 2—BUDGETARY FUND BALANCE

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

Nonspendable for:	
Prepaid expenses	\$ 32,412
Assigned for:	
Designated to offset subsequent fiscal year tax rate	325,000
Unassigned for:	
General operations	<u>4,119,350</u>
	<u>\$ 4,476,762</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
June 30, 2013

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

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

SCHEDULE I
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF AGRICULTURE		
Pass Through Payments from New Hampshire		
Department of Education		
School Breakfast Program	10.553	\$ 87,967
National School Lunch Program	10.555	327,292
Special Milk Program for Children	10.556	588
Fresh Fruit and Vegetable Program	10.582	37,301
Total Department of Agriculture		453,148
DEPARTMENT OF THE INTERIOR		
Pass Through Payments from New Hampshire		
Division of Historical Resources		
Historic Preservation Fund Grants-In-Aid #CLG-12-41936-03	15.904	10,000
Outdoor Recreation - Acquisition, Development and Planning	15.916	40,722
Total Department of the Interior		50,722
DEPARTMENT OF JUSTICE		
Pass Through Payments from the County of Strafford, New Hampshire		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	6,112
#2010-86492-NH-DJ		10,824
#2012-H1219-NH-DJ		16,936
Equitable Sharing Program	16.922	420
CG-10-0046/YNA2C		
Total Department of Justice		17,356
DEPARTMENT OF TRANSPORTATION		
Pass Through Payments from the New Hampshire		
Department of Highway Safety and Transportation		
Highway Planning and Construction	20.205	48,066
State and Community Highway Safety #315-12A-017	20.600	146
Alcohol Impaired Driving Countermeasures Incentive Grants I #308-12A-073	20.601	713
Total Department of Transportation		48,925

See notes to 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, 2013

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF EDUCATION		
Pass Through Payments from New Hampshire Department of Education		
Title I Grants to Local Educational Agencies	84.010	
#20131		39,817
#20167		15,154
#31526		4,087
#20299		7,649
#20330		6,192
#30131		550,964
#31521		4,087
#30166		37,535
#30299		8,718
#30330		9,079
#30300		7,381
		<u>690,663</u>
Career and Technical Education - Basic Grants to States	84.048	
#35034		78,540
#25034		2,828
		<u>81,368</u>
Twenty-First Century Community Learning Centers	84.287	
#35326		<u>196,194</u>
English Language Acquisition State Grants	84.365	
#30807		<u>2,502</u>
Improving Teacher Quality State Grants	84.367	
#14931		3,828
#25414		4,579
#25440		1,473
#34931		135,132
		<u>145,012</u>
Total Department of Education		<u>1,115,739</u>
DEPARTMENT OF HOMELAND SECURITY		
Pass Through Payments from New Hampshire Department of Safety		
Hazard Mitigation Grant	97.039	
#FEMA-DR-1812-NH		<u>4,330</u>
Assistance to Firefighters Grant	97.044	
#EMW-2009-FO-03851		<u>40,839</u>
Homeland Security Grant Program	97.067	<u>26,423</u>
Total Department of Homeland Security		<u>71,592</u>
Total Expenditures of Federal Awards		<u>\$ 1,757,482</u>

See notes to schedule of expenditures of federal awards

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2013

NOTE 1—GENERAL

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

NOTE 2—BASIS OF ACCOUNTING

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

NOTE 3—NON-CASH TRANSACTIONS

The City participates in the USDA Food Distribution Program which is a non-cash program. The value of commodities expended by the City is \$37,176 and has been reported on the Schedule of Expenditures of Federal Awards as part of the National School Lunch Program.

NOTE 4—RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

Major Funds:	
General Fund	\$ 46,331
Nonmajor Funds	<u>1,673,975</u>
	<u>\$ 1,720,306</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, 2013, and the related notes to the financial statements, which collectively comprise the City of Somersworth, New Hampshire's basic financial statements, and have issued our report thereon dated February 11, 2014.

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.

Jachon Chikay & Company PC

Manchester, New Hampshire
February 11, 2014

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Somersworth, New Hampshire's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Somersworth, New Hampshire's major federal programs for the year ended June 30, 2013. The City of Somersworth, New Hampshire's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Somersworth, New Hampshire's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Somersworth, New Hampshire's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of Somersworth, New Hampshire complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City of Somersworth, New Hampshire is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Somersworth, New Hampshire's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Somersworth, New Hampshire's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Nelson Chukay & Company PC

Manchester, New Hampshire
February 11, 2014

**City of Somersworth, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified – all reporting units
Internal control over financial reporting:
Material weakness(es) identified? _____yes X no
Significant deficiency(ies) identified
not considered to be material weaknesses? _____yes X none reported
Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____yes X no
Significant deficiency(ies) identified
not considered to be material weaknesses? _____yes X none reported

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

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? _____yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, & 10.556	Child Nutrition Cluster
84.287	Twenty-First Century Community Learning Centers

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

Auditee qualified as low-risk auditee? X yes _____ no

Section II--Financial Statement Findings

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

Section III--Federal Award Findings and Questioned Costs

There were no findings and questioned costs required to be reported under OMB Circular A-133 .510(a).