

**CITY OF ROCHESTER, NEW HAMPSHIRE**

**Annual Financial Statements**

**For the Year Ended June 30, 2016**

## City of Rochester, New Hampshire

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**Additional Offices:**

Nashua, NH  
Andover, MA  
Greenfield, MA  
Ellsworth, ME

## INDEPENDENT AUDITORS' REPORT

To the City Council and City Manager  
City of Rochester, 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 Rochester, New Hampshire, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

The City's 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.

### **Auditors' 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 auditors' 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 Rochester, New Hampshire, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund 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 Management's Discussion and Analysis, Schedule of OPEB Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Pension Contributions 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 evidence sufficient to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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's internal control over financial reporting and compliance.

*Melanson Heath*

January 30, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Rochester, we offer readers this narrative overview and analysis of the financial activities of the City of Rochester for the fiscal year ended June 30, 2016.

### **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, and deferred outflows/inflows of resources, with the difference 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 City'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, education, health and welfare, culture and recreation, community development, community services, and conservation. The business-type activities include water, sewer and arena 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 arena 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 arena operations. The City's major proprietary funds consist of the water and sewer 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 accounting principles generally accepted in the United States of America.

## B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$75,513,309 (i.e., net position), a change of \$5,781,311 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$14,331,389, a change of \$10,581,537 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$16,346,532, a change of \$1,607,697 in comparison to the prior year.
- Bonds payable at the close of the current fiscal year was \$82,250,305, a change of \$7,630,222 in comparison to the prior year.

## C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 47,026,452	\$ 32,441,263	\$ 5,678,087	\$ 6,633,725	\$ 52,704,539	\$ 39,074,988
Capital assets	122,155,209	118,096,132	87,155,663	85,406,665	209,310,872	203,502,797
Deferred outflows	7,603,806	6,573,506	300,657	173,026	7,904,463	6,746,532
Total assets and deferred outflows of resources	176,785,467	157,110,901	93,134,407	92,213,416	269,919,874	249,324,317
Current liabilities	14,571,477	22,009,497	2,668,100	6,661	17,239,577	22,016,158
Noncurrent liabilities	117,086,856	102,108,700	33,748,470	36,253,025	150,835,326	138,361,725
Deferred inflows	25,873,330	18,567,838	458,332	646,598	26,331,662	19,214,436
Total liabilities and deferred inflows of resources	157,531,663	142,686,035	36,874,902	36,906,284	194,406,565	179,592,319
Net position:						
Net investment in capital assets	66,241,549	66,115,846	53,291,835	43,105,145	119,533,384	109,220,991
Restricted	1,692,116	1,035,145	-	-	1,692,116	1,035,145
Unrestricted	(48,679,861)	(52,726,125)	2,967,670	12,201,987	(45,712,191)	(40,524,138)
Total net position	\$ 19,253,804	\$ 14,424,866	\$ 56,259,505	\$ 55,307,132	\$ 75,513,309	\$ 69,731,998



CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 5,048,295	\$ 4,932,990	\$ 8,462,814	\$ 8,236,967	\$ 13,511,109	\$ 13,169,957
Operating grants and contributions	35,727,426	34,934,854	10,000	10,000	35,737,426	34,944,854
Capital grants and contributions	148,821	312,278	285,781	479,187	434,602	791,465
General revenues:						
Property taxes	45,205,832	43,021,034	-	-	45,205,832	43,021,034
Licenses and permits	5,209,592	4,681,182	104,264	114,185	5,313,856	4,795,367
Penalties and interest on taxes	1,326,307	1,325,711	12,109	10,425	1,338,416	1,336,136
Grants and contributions not restricted to specific programs	2,039,579	1,976,999	-	-	2,039,579	1,976,999
Investment income	80,075	62,669	5,000	5,500	85,075	68,169
Other	1,894,470	2,277,610	720,401	487,868	2,614,871	2,765,478
Total revenues	96,680,397	93,525,327	9,600,369	9,344,132	106,280,766	102,869,459
Expenses:						
General government	5,112,010	4,698,798	-	-	5,112,010	4,698,798
Public safety	12,681,498	12,538,098	-	-	12,681,498	12,538,098
Highway and streets	6,596,111	5,999,765	-	-	6,596,111	5,999,765
Education	62,025,120	62,167,874	-	-	62,025,120	62,167,874
Health and welfare	369,662	357,706	-	-	369,662	357,706
Culture and recreation	1,900,451	1,961,609	-	-	1,900,451	1,961,609
Community development	563,844	357,408	-	-	563,844	357,408
Community services	778,346	687,415	-	-	778,346	687,415
Conservation	13,660	19,990	-	-	13,660	19,990
Interest on long-term debt	1,794,763	1,679,991	-	-	1,794,763	1,679,991
Water	-	-	4,038,594	3,854,426	4,038,594	3,854,426
Sewer	-	-	4,167,971	4,110,954	4,167,971	4,110,954
Nonmajor enterprise	-	-	457,425	459,880	457,425	459,880
Total expenses	91,835,465	90,468,654	8,663,990	8,425,260	100,499,455	98,893,914
Change in net position before transfers	4,844,932	3,056,673	936,379	918,872	5,781,311	3,975,545
Transfers in (out)	(15,994)	123,457	15,994	(123,457)	-	-
Change in net position	4,828,938	3,180,130	952,373	795,415	5,781,311	3,975,545
Net position - beginning of year	14,424,866	11,244,736	55,307,132	54,511,717	69,731,998	65,756,453
Net position - end of year	\$ 19,253,804	\$ 14,424,866	\$ 56,259,505	\$ 55,307,132	\$ 75,513,309	\$ 69,731,998

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 \$75,513,309, a change of \$5,781,311 from the prior year.

The largest portion of net position, \$119,533,384, reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), 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, \$1,692,116, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(45,712,191), primarily resulting from the City's unfunded net pension liability (see footnote 22).

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$4,828,938. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 1,585,666
Capital projects fund activity on accrual basis	6,674,016
Nonmajor fund activity on accrual basis	(2,066,711)
Depreciation, which is not budgeted or funded, over principal maturities, a budgeted expense	(1,618,707)
Other	254,674
Total	<u>\$ 4,828,938</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$952,373. Key elements of this change are as follows:

Water operations	\$ (132,564)
Sewer operations	1,037,793
Nonmajor enterprise operations	47,144
Total	<u>\$ 952,373</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 \$14,331,389, a change of \$10,581,537 in comparison to the prior year. Key elements of this change are as follows:

General fund operations	\$ 1,585,666
Capital projects fund activity	7,367,582
Nonmajor fund activity	1,628,289
Total	<u>\$ 10,581,537</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$16,346,532, while total fund balance was \$16,567,525. 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 general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 16,346,532	\$ 14,738,835	\$ 1,607,697	19.4%
Total fund balance	\$ 16,567,525	\$ 14,981,859	\$ 1,585,666	19.6%

The total fund balance of the general fund changed by \$1,585,666 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 2,582,004
Expenditures less than budget	1,193,772
Use of fund balance as a funding source	(2,855,795)
Other timing issues	665,685
Total	<u>\$ 1,585,666</u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$2,967,670.

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**

Differences between the original budget and the final amended budget resulted in an overall change in appropriation of \$1,114,489. Major reasons for these amendments include:

- \$375,000 – City resolution to use unassigned fund balance to fund the Fire Department Capital Improvement Project for apparatus replacement.
- \$250,000 – City resolution to use unassigned fund balance for emergency repairs to the Route 125 pedestrian bridge.
- \$75,000 – City resolution to use unassigned fund balance to provide support for an addictive disorders recovery center.
- \$70,498 – City resolution to use unassigned fund balance to fund the FY15 Arena Department Enterprise Fund deficit.

- \$65,000 – City resolution to use unassigned fund balance to fund the Columbus Avenue Parking Lot Project.

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

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$209,310,872 (net of accumulated depreciation), a change of \$5,808,075 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

### **Governmental Activities:**

#### New addition to Construction in Progress:

ER School Construction	\$ 2,717,926
Granite Ridge TIF District	\$ 2,311,372
Roof Repairs CTE RMS	\$ 809,270

#### Conversion of Construction in Progress to Depreciable Asset:

Brock St Reconstruction	\$ 2,482,641
District Security & Safety	\$ 1,231,792
Pavement Rehabilitation	\$ 809,779

### **Business-type Activities:**

#### New addition to Construction in Progress:

Water Plant Upgrade	\$ 756,323
Sheridan Glen	\$ 680,936
Water Tank Maintenance Program	\$ 557,766
EDA Salmon Falls	\$ 481,847

#### Conversion of Construction in Progress to Depreciable Asset:

Waste Water Upgrade	\$ 1,457,711
Brock St Construction	\$ 1,273,190
Sewer Pump Station	\$ 834,029
Sheridan Glen	\$ 648,896

Additional information on capital assets can be found in the Notes to the Financial Statements.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$82,250,305, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Rochester'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:

City Finance Office  
City of Rochester  
31 Wakefield Street  
Rochester, New Hampshire 03867

## CITY OF ROCHESTER, NEW HAMPSHIRE

## STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 39,822,031	\$ -	\$ 39,822,031
Investments	2,635,157	-	2,635,157
Receivables, net of allowance for uncollectibles:			
Property taxes	53,178	-	53,178
User fees	376,603	2,013,369	2,389,972
Intergovernmental	1,247,082	779,625	2,026,707
Other assets	139,424	535,860	675,284
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	2,752,977	-	2,752,977
Intergovernmental	-	2,349,233	2,349,233
Capital Assets:			
Land and construction in progress	31,522,712	7,434,714	38,957,426
Other assets, net of accumulated depreciation	90,632,497	79,720,949	170,353,446
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>7,603,806</u>	<u>300,657</u>	<u>7,904,463</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	176,785,467	93,134,407	269,919,874
<b>LIABILITIES</b>			
Current:			
Accounts payable	2,144,943	850,834	2,995,777
Accrued liabilities	4,733,834	766,567	5,500,401
Internal balances	2,637,622	(2,522,061)	115,561
Tax refunds payable	150,726	-	150,726
Other liabilities	77,420	7,922	85,342
Notes payable	-	-	-
Current portion of long-term liabilities:			
Bonds payable	4,346,286	3,450,215	7,796,501
Bond premium	113,428	101,184	214,612
Capital lease payable	134,629	-	134,629
Compensated absences	232,589	13,439	246,028
Noncurrent:			
Bonds payable, net of current portion	45,995,685	28,458,119	74,453,804
Bond premium, net of current portion	1,257,110	303,832	1,560,942
Capital lease payable, net of current portion	138,236	-	138,236
Compensated absences, net of current portion	2,093,304	120,947	2,214,251
Other liabilities, net of current portion	-	2,248,454	2,248,454
Other post employment benefits liability	5,431,371	584,950	6,016,321
Net pension liability	62,171,150	2,032,168	64,203,318
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>25,873,330</u>	<u>458,332</u>	<u>26,331,662</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	157,531,663	36,874,902	194,406,565
<b>NET POSITION</b>			
Net investment in capital assets	66,241,549	53,291,835	119,533,384
Restricted for:			
Grants and other statutory restrictions	1,596,181	-	1,596,181
Permanent funds:			
Nonexpendable	47,364	-	47,364
Expendable	48,571	-	48,571
Unrestricted	<u>(48,679,861)</u>	<u>2,967,670</u>	<u>(45,712,191)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 19,253,804</u>	<u>\$ 56,259,505</u>	<u>\$ 75,513,309</u>

The accompanying notes are an integral part of these financial statements.

## CITY OF ROCHESTER, NEW HAMPSHIRE

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 5,112,010	\$ 804,919	\$ 5,000	\$ 2	\$ (4,302,089)	\$ -	\$ (4,302,089)
Public safety	12,681,498	367,226	229,157	167	(12,084,948)	-	(12,084,948)
Highway and streets	6,596,111	32,147	-	148,652	(6,415,312)	-	(6,415,312)
Education	62,025,120	2,988,294	35,085,584	-	(23,951,242)	-	(23,951,242)
Health and welfare	369,662	-	-	-	(369,662)	-	(369,662)
Culture and recreation	1,900,451	144,027	350	-	(1,756,074)	-	(1,756,074)
Community development	563,844	-	407,335	-	(156,509)	-	(156,509)
Community services	778,346	711,682	-	-	(66,664)	-	(66,664)
Conservation	13,660	-	-	-	(13,660)	-	(13,660)
Interest	1,794,763	-	-	-	(1,794,763)	-	(1,794,763)
Total Governmental Activities	91,835,465	5,048,295	35,727,426	148,821	(50,910,923)	-	(50,910,923)
<b>Business-Type Activities:</b>							
Water operations	4,038,594	3,720,755	-	24,494	-	(293,345)	(293,345)
Sewer operations	4,167,971	4,330,847	-	261,287	-	424,163	424,163
Nonmajor enterprise fund operations	457,425	411,212	10,000	-	-	(36,213)	(36,213)
Total Business-Type Activities	8,663,990	8,462,814	10,000	285,781	-	94,605	94,605
Total	\$ 100,499,455	\$ 13,511,109	\$ 35,737,426	\$ 434,602	(50,910,923)	94,605	(50,816,318)
<b>General Revenues and Transfers:</b>							
Property taxes					45,205,832	-	45,205,832
Licenses and permits					5,209,592	104,264	5,313,856
Penalties, interest, and other taxes					1,326,307	12,109	1,338,416
Grants and contributions not restricted to specific programs					2,039,579	-	2,039,579
Investment income					80,075	5,000	85,075
Miscellaneous					1,894,470	720,401	2,614,871
Transfers, net					(15,994)	15,994	-
Total general revenues and transfers					55,739,861	857,768	56,597,629
Change in Net Position					4,828,938	952,373	5,781,311
<b>Net Position:</b>							
Beginning of year					14,424,866	55,307,132	69,731,998
End of year					\$ 19,253,804	\$ 56,259,505	\$ 75,513,309

The accompanying notes are an integral part of these financial statements.

## CITY OF ROCHESTER, NEW HAMPSHIRE

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 39,645,425	\$ -	\$ 176,606	\$ 39,822,031
Investments	2,544,711	-	90,446	2,635,157
Receivables:				
Property taxes	4,031,302	-	-	4,031,302
User fees	372,600	-	4,003	376,603
Intergovernmental	-	50,166	1,196,916	1,247,082
Due from other funds	4,367,274	-	1,442,135	5,809,409
Other assets	<u>30,633</u>	<u>-</u>	<u>108,791</u>	<u>139,424</u>
TOTAL ASSETS	\$ <u>50,991,945</u>	\$ <u>50,166</u>	\$ <u>3,018,897</u>	\$ <u>54,061,008</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,654,919	\$ 283,303	\$ 206,721	\$ 2,144,943
Accrued liabilities	3,889,121	149,651	137,788	4,176,560
Tax refunds payable	150,726	-	-	150,726
Due to other funds	4,158,470	3,545,498	743,063	8,447,031
Other liabilities	<u>77,420</u>	<u>-</u>	<u>-</u>	<u>77,420</u>
TOTAL LIABILITIES	9,930,656	3,978,452	1,087,572	14,996,680
<b>DEFERRED INFLOWS OF RESOURCES</b>	24,493,764	-	239,175	24,732,939
<b>FUND BALANCES</b>				
Nonspendable	30,633	-	47,364	77,997
Restricted	170,360	-	1,644,786	1,815,146
Assigned	20,000	-	-	20,000
Unassigned	<u>16,346,532</u>	<u>(3,928,286)</u>	<u>-</u>	<u>12,418,246</u>
TOTAL FUND BALANCES	<u>16,567,525</u>	<u>(3,928,286)</u>	<u>1,692,150</u>	<u>14,331,389</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ <u>50,991,945</u>	\$ <u>50,166</u>	\$ <u>3,018,897</u>	\$ <u>54,061,008</u>

The accompanying notes are an integral part of these financial statements.



CITY OF ROCHESTER, NEW HAMPSHIRE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET POSITION OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2016

<b>Total governmental fund balances</b>	\$ 14,331,389
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	122,155,209
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	2,644,431
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(557,274)
• Long-term liabilities, including bonds payable, capital leases, accrued compensated absences and net OPEB obligation are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(119,319,951)</u>
<b>Net position of governmental activities</b>	<u><u>\$ 19,253,804</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 44,998,141	\$ -	\$ 298,945	\$ 45,297,086
Penalties, interest, and other taxes	1,326,307	-	-	1,326,307
Charges for services	3,666,863	-	1,381,432	5,048,295
Intergovernmental	30,151,870	153,654	5,570,723	35,876,247
Licenses and permits	5,209,592	-	-	5,209,592
Investment income	75,242	-	4,833	80,075
Miscellaneous	2,039,579	-	160,894	2,200,473
Contributions	1,677,021	-	-	1,677,021
Total Revenues	89,144,615	153,654	7,416,827	96,715,096
<b>Expenditures:</b>				
Current:				
General government	4,952,417	751,098	1,066	5,704,581
Public safety	12,130,673	302,850	207,389	12,640,912
Highway and streets	2,632,885	2,597,272	91,151	5,321,308
Education	55,679,205	1,562,829	5,732,794	62,974,828
Health and welfare	362,365	-	-	362,365
Culture and recreation	1,814,302	4,035	4,203	1,822,540
Community development	163,276	33,859	472,462	669,597
Community services	-	-	746,177	746,177
Conservation	13,660	-	-	13,660
Debt service	6,687,944	-	55,302	6,743,246
Capital outlay	-	2,911,979	2,311,372	5,223,351
Total Expenditures	84,436,727	8,163,922	9,621,916	102,222,565
Excess (deficiency) of revenues over expenditures	4,707,888	(8,010,268)	(2,205,089)	(5,507,469)
<b>Other Financing Sources (Uses):</b>				
Bond proceeds	-	12,205,000	3,900,000	16,105,000
Proceeds from bond refunding	-	7,139,748	-	7,139,748
Payments to fiscal agent	-	(7,139,748)	-	(7,139,748)
Transfers in	255,876	3,202,464	23,378	3,481,718
Transfers out	(3,378,098)	(29,614)	(90,000)	(3,497,712)
Total Other Financing Sources (Uses)	(3,122,222)	15,377,850	3,833,378	16,089,006
Change in fund balance	1,585,666	7,367,582	1,628,289	10,581,537
Fund Equity, at Beginning of Year	14,981,859	(11,295,868)	63,861	3,749,852
Fund Equity, at End of Year	\$ 16,567,525	\$ (3,928,286)	\$ 1,692,150	\$ 14,331,389

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE

RECONCILIATION OF THE STATEMENT OF REVENUES  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

<b>Net changes in fund balances - total governmental funds</b>	<b>\$ 10,581,537</b>
<ul style="list-style-type: none"> <li>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 and reported as depreciation expense:</li> </ul>	
Capital outlay purchases, net	10,721,434
Depreciation	(6,662,357)
<ul style="list-style-type: none"> <li>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., property taxes, etc.) differ between the two statements. This amount represents the net change in deferred revenue.</li> </ul>	(91,254)
<ul style="list-style-type: none"> <li>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:</li> </ul>	
Issuance of debt	(22,249,748)
Repayments of debt on bonds payable	11,756,120
Repayments of debt on capital leases	131,115
Current year amortization of bond premium	56,557
Issuance of bond premium	(995,000)
Current year amortization of loss on refunding	(38,764)
Loss on bond refunding	427,278
<ul style="list-style-type: none"> <li>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li> </ul>	(56,403)
<ul style="list-style-type: none"> <li>Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.</li> </ul>	1,248,423
<b>Change in net position of governmental activities</b>	<b>\$ <u>4,828,938</u></b>

The accompanying notes are an integral part of these financial statements.

## CITY OF ROCHESTER, NEW HAMPSHIRE

## GENERAL FUND

## STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues and Other Sources:</b>				
Taxes	\$ 44,534,964	\$ 44,327,278	\$ 44,327,278	\$ -
Penalties, interest, and other taxes	1,137,782	1,205,214	1,326,307	121,093
Charges for services	3,528,052	3,265,614	3,666,863	401,249
Intergovernmental	31,710,783	32,079,212	32,191,449	112,237
Licenses and permits	4,009,290	4,009,290	5,209,592	1,200,302
Investment income	55,000	55,000	75,242	20,242
Miscellaneous	978,883	980,258	1,677,021	696,763
Transfers in	54,000	54,000	84,118	30,118
Use of fund balance	<u>1,708,418</u>	<u>2,855,795</u>	<u>2,855,795</u>	<u>-</u>
Total Revenues and Other Sources	87,717,172	88,831,661	91,413,665	2,582,004
<b>Expenditures and Other Uses:</b>				
General government	5,035,987	5,111,509	4,952,417	159,092
Public safety	12,389,061	12,326,361	12,130,673	195,688
Highway and streets	2,737,398	2,735,398	2,632,885	102,513
Education	56,146,207	56,264,932	55,679,205	585,727
Health and welfare	451,998	451,998	362,365	89,633
Culture and recreation	1,919,686	1,822,198	1,814,302	7,896
Debt service	6,859,892	6,741,167	6,687,944	53,223
Transfers out	<u>2,176,943</u>	<u>3,378,098</u>	<u>3,378,098</u>	<u>-</u>
Total Expenditures and Other Uses	<u>87,717,172</u>	<u>88,831,661</u>	<u>87,637,889</u>	<u>1,193,772</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,775,776</u>	\$ <u>3,775,776</u>

The accompanying notes are an integral part of these financial statements.

## CITY OF ROCHESTER, NEW HAMPSHIRE

## PROPRIETARY FUNDS

## STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total
<b>ASSETS</b>				
Current:				
Due from other funds	\$ 524,328	\$ 2,076,446	\$ -	\$ 2,600,774
User fees, net of allowance for uncollectibles	900,595	1,112,774	-	2,013,369
Intergovernmental receivables	107,507	672,118	-	779,625
Other assets	467,115	68,745	-	535,860
Total current assets	1,999,545	3,930,083	-	5,929,628
Noncurrent:				
Intergovernmental receivables	-	2,349,233	-	2,349,233
Capital Assets:				
Land and construction in progress	2,713,350	4,625,675	95,689	7,434,714
Other assets, net of accumulated depreciation	32,862,365	45,503,765	1,354,819	79,720,949
Total noncurrent assets	35,575,715	52,478,673	1,450,508	89,504,896
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	206,192	94,465	-	300,657
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	37,781,452	56,503,221	1,450,508	95,735,181
<b>LIABILITIES</b>				
Current:				
Accounts payable	284,562	561,160	5,112	850,834
Accrued liabilities	459,771	293,037	13,759	766,567
Due to other funds	-	-	78,713	78,713
Other current liabilities	-	7,922	-	7,922
Current portion of long-term liabilities:				
Bonds payable	1,332,658	2,017,152	100,405	3,450,215
Bond premium	8,973	90,327	1,884	101,184
Compensated absences	5,258	7,551	630	13,439
Total current liabilities	2,091,222	2,977,149	200,503	5,268,874
Noncurrent:				
Bonds payable, net of current portion	14,223,070	13,324,945	910,104	28,458,119
Bond premium, net of current portion	75,453	211,048	17,331	303,832
Compensated absences, net of current portion	47,320	67,960	5,667	120,947
Other liabilities, net of current portion	2,248,454	-	-	2,248,454
OPEB liability	263,527	279,403	42,020	584,950
Net pension liability	1,049,938	982,230	-	2,032,168
Total noncurrent liabilities	17,907,762	14,865,586	975,122	33,748,470
<b>DEFERRED INFLOWS OF RESOURCES</b>	89,846	368,486	-	458,332
<b>TOTAL LIABILITIES AND DEFERRED OUTFLOWS OF RESOURCES</b>	20,088,830	18,211,221	1,175,625	39,475,676
<b>NET POSITION</b>				
Net investment in capital assets	16,357,980	36,357,582	576,273	53,291,835
Unrestricted	1,334,642	1,934,418	(301,390)	2,967,670
<b>TOTAL NET POSITION</b>	\$ 17,692,622	\$ 38,292,000	\$ 274,883	\$ 56,259,505

The accompanying notes are an integral part of these financial statements.

## CITY OF ROCHESTER, NEW HAMPSHIRE

## PROPRIETARY FUNDS

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total
<b>Operating Revenues:</b>				
Charges for services	\$ 3,720,755	\$ 4,330,847	\$ 411,212	\$ 8,462,814
Other	<u>185,533</u>	<u>638,382</u>	<u>12,859</u>	<u>836,774</u>
Total Operating Revenues	3,906,288	4,969,229	424,071	9,299,588
<b>Operating Expenses:</b>				
Operating expenses	2,195,683	2,333,495	359,811	4,888,989
Depreciation	<u>1,324,954</u>	<u>1,342,383</u>	<u>61,616</u>	<u>2,728,953</u>
Total Operating Expenses	<u>3,520,637</u>	<u>3,675,878</u>	<u>421,427</u>	<u>7,617,942</u>
Operating Income (Loss)	385,651	1,293,351	2,644	1,681,646
<b>Nonoperating Revenues (Expenses):</b>				
Intergovernmental revenue	24,494	261,287	10,000	295,781
Investment income	2,500	2,500	-	5,000
Interest expense	<u>(517,957)</u>	<u>(492,093)</u>	<u>(35,998)</u>	<u>(1,046,048)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(490,963)</u>	<u>(228,306)</u>	<u>(25,998)</u>	<u>(745,267)</u>
Income (Loss) Before Transfers	(105,312)	1,065,045	(23,354)	936,379
<b>Transfers:</b>				
Transfers in	-	-	70,498	70,498
Transfers out	<u>(27,252)</u>	<u>(27,252)</u>	<u>-</u>	<u>(54,504)</u>
Change in Net Position	(132,564)	1,037,793	47,144	952,373
Net Position at Beginning of Year	<u>17,825,186</u>	<u>37,254,207</u>	<u>227,739</u>	<u>55,307,132</u>
Net Position at End of Year	<u>\$ 17,692,622</u>	<u>\$ 38,292,000</u>	<u>\$ 274,883</u>	<u>\$ 56,259,505</u>

The accompanying notes are an integral part of these financial statements.

## CITY OF ROCHESTER, NEW HAMPSHIRE

## PROPRIETARY FUNDS

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total
<b><u>Cash Flows From Operating Activities:</u></b>				
Receipts from customers and users	\$ 3,964,377	\$ 4,892,491	\$ 430,920	\$ 9,287,788
Payments to vendors and employees	<u>(2,369,080)</u>	<u>(2,523,730)</u>	<u>(363,109)</u>	<u>(5,255,919)</u>
Net Cash Provided By (Used For) Operating Activities	1,595,297	2,368,761	67,811	4,031,869
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>				
Transfers in	-	-	70,498	70,498
Transfers out	(27,252)	(27,252)	-	(54,504)
Interfund borrowing	<u>1,531,806</u>	<u>1,467,959</u>	<u>30,223</u>	<u>3,029,988</u>
Net Cash (Used For) Noncapital Financing Activities	1,504,554	1,440,707	100,721	3,045,982
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>				
Acquisition and construction of capital assets	(2,317,958)	(2,117,492)	(42,503)	(4,477,953)
Principal payments on bonds	(3,467,235)	(2,866,533)	(98,103)	(6,431,871)
Bonds issued in current period	2,320,622	1,247,843	-	3,568,465
Bond premium proceeds, net	(9,331)	(109,344)	(1,928)	(120,603)
Interest expense	(517,957)	(492,093)	(35,998)	(1,046,048)
Intergovernmental revenue	<u>889,508</u>	<u>525,651</u>	<u>10,000</u>	<u>1,425,159</u>
Net Cash (Used For) Capital and Related Financing Activities	(3,102,351)	(3,811,968)	(168,532)	(7,082,851)
<b><u>Cash Flows From Investing Activities:</u></b>				
Investment income	<u>2,500</u>	<u>2,500</u>	<u>-</u>	<u>5,000</u>
Net Cash Provided by Investing Activities	<u>2,500</u>	<u>2,500</u>	<u>-</u>	<u>5,000</u>
Net Change in Cash and Short-Term Investments	-	-	-	-
Cash and Short-Term Investments, Beginning of Year	-	-	-	-
Cash and Short-Term Investments, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>				
Operating income (loss)	\$ 385,651	\$ 1,293,351	\$ 2,644	\$ 1,681,646
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,324,954	1,342,383	61,616	2,728,953
Changes in assets and liabilities:				
User fees	58,089	(76,738)	6,849	(11,800)
Other assets	(36,007)	(16,033)	-	(52,040)
Accounts payable	(197,491)	(18,031)	(256)	(215,778)
Accrued liabilities	(7,793)	(146,548)	(5,524)	(159,865)
Compensated absences	(2,383)	3,207	6,973	7,797
OPEB liability	27,240	35,772	(4,491)	58,521
Net pension liability	<u>43,037</u>	<u>(48,602)</u>	<u>-</u>	<u>(5,565)</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 1,595,297</u>	<u>\$ 2,368,761</u>	<u>\$ 67,811</u>	<u>\$ 4,031,869</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2016

	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 249,038	\$ 466,993
Investments	2,061,668	-
Due from other funds	<u>-</u>	<u>115,561</u>
Total Assets	2,310,706	582,554
<b><u>LIABILITIES AND NET POSITION</u></b>		
Other liabilities	<u>-</u>	<u>582,554</u>
Total Liabilities	<u>-</u>	<u>582,554</u>
<b><u>NET POSITION</u></b>		
Total net position held in trust	\$ <u><u>2,310,706</u></u>	\$ <u><u>-</u></u>

The accompanying notes are an integral part of these financial statements.



CITY OF ROCHESTER, NEW HAMPSHIRE  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Private Purpose Trust Funds</u>
<b>Additions:</b>	
Increase in fair value of investments	\$ <u>112,910</u>
Total additions	112,910
<b>Deductions:</b>	
Other	<u>61,503</u>
Total deductions	<u>61,503</u>
Net increase	51,407
<b>Net position:</b>	
Beginning of year	<u>2,259,299</u>
End of year	\$ <u><u>2,310,706</u></u>

The accompanying notes are an integral part of these financial statements.

## CITY OF ROCHESTER, NEW HAMPSHIRE

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

The accounting policies of the City of Rochester, New Hampshire (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

##### A. Reporting Entity

The City is a municipal corporation governed by a City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2016, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

##### B. Government-Wide and Fund Financial Statements

###### Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

###### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual

governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- The *capital projects fund* accounts for all financial transactions used for the acquisition or construction of major capital facilities, infrastructure, vehicles, and equipment for the City.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

- The *Water Fund* accounts for services relating to water activities.
- The *Sewer Fund* accounts for services relating to sewer activities.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency funds* account for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities and, therefore, have no measurement focus.

#### D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

*E. Investments*

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

*F. Interfund Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due from/to other funds” (i.e., the current portion of interfund loans).

*G. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10 – 20
Building and improvements	5 – 100
Infrastructure	10 – 50
Vehicles and equipment	5 – 50

#### *H. Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

#### *I. Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

#### *J. Fund Equity*

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities/deferred inflows. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., City Council).
- 4) Assigned funds are used for specific purposes as established by management.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the City uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing 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. The remaining net position is reported as unrestricted.

*K. Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

**2. Stewardship, Compliance, and Accountability**

*A. Budgetary Information*

The City Manager presents an operating and capital budget for the proposed expenditures of the year commencing the following July 1. The budget, as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the year at City Council meetings as required by changing conditions. Departments are limited to the line item as voted. Formal budgetary integration is employed as a management control device during the year for the General Fund. At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

*B. Budgetary Basis*

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

### C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 89,144,615	\$ 84,436,727
Other financing sources/uses (GAAP basis)	<u>255,876</u>	<u>3,378,098</u>
Subtotal (GAAP Basis)	89,400,491	87,814,825
Adjust tax revenue to accrual basis	(670,863)	-
Recognize use of fund balance as funding source	2,855,795	-
To eliminate conservation activity	(71,758)	(13,660)
To eliminate economic development activity	<u>(100,000)</u>	<u>(163,276)</u>
Budgetary basis	<u>\$ 91,413,665</u>	<u>\$ 87,637,889</u>

### D. Deficit Fund Equity

The following funds reflected deficit balances as of June 30, 2016:

Capital Projects Fund - various projects	\$ <u>(3,928,286)</u>
	\$ <u><u>(3,928,286)</u></u>

The deficits in these funds will be eliminated through future departmental revenues, bonds proceeds, and transfers from other funds.

## 3. Cash and Short-Term Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty (e.g., broker-dealer) 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.



*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. RSA 48:16 limits "deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus, exception that a City with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank." The City does not have a deposit policy for custodial credit risk. The underlying securities of the City's deposit in repurchase agreements of \$1,999,999 are held by the investment's counterparty, not in the name of the City.

As of June 30, 2016, \$217,023 of the City's bank balance of \$43,938,753 was exposed to custodial credit risk as uninsured or uncollateralized. This amount represents the cash portion of investment accounts in the custody of the Trustees of Trust Funds.

#### 4. Investments

##### A. 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. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Presented below is the actual rating as of year-end for each investment of the City:

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End								Not Rated
				Aaa	Aa3	Aa2	Aa1	A1	A3	Baa1	Baa2	
U.S. Treasury notes	\$ 30,076	N/A	\$ -	\$ 30,076	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of deposits	2,544,711	N/A	2,544,711	-	-	-	-	-	-	-	-	-
Corporate bonds	418,199	-	-	-	-	32,675	30,530	117,047	63,169	113,449	61,329	-
Corporate equities	1,189,041	N/A	1,189,041	-	-	-	-	-	-	-	-	-
Mutual funds	397,714	N/A	397,714	-	-	-	-	-	-	-	-	-
Federal agency securities	74,768	-	-	71,260	-	-	-	-	-	-	-	3,508
Municipal obligations	42,316	-	-	-	25,873	16,443	-	-	-	-	-	-
Total investments	<u>\$ 4,696,825</u>		<u>\$ 4,131,466</u>	<u>\$ 101,336</u>	<u>\$ 25,873</u>	<u>\$ 49,118</u>	<u>\$ 30,530</u>	<u>\$ 117,047</u>	<u>\$ 63,169</u>	<u>\$ 113,449</u>	<u>\$ 61,329</u>	<u>\$ 3,508</u>

##### B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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. The City does not have policies for custodial credit risk.

The City's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the City's brokerage firm, which is also the Counterparty to these

securities. The City manages this custodial credit risk with SIPC and excess SIPC.

*C. Concentration of Credit Risk*

The City does not have an investment in one issuer greater than 5% of total investments.

*D. Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
U.S. Treasury notes	\$ 30,076	\$ 30,076	\$ -	\$ -
Corporate bonds	418,199	25,040	330,342	62,817
Federal agency securities	74,768	-	74,768	-
Municipal obligations	42,316	-	42,317	-
Total	\$ 565,359	\$ 55,116	\$ 447,427	\$ 62,817

*E. Foreign Currency Risk*

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. Although the City has an investment policy, it does not address foreign currency risk.

*F. Fair Value*

The Government categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 Fair Value Measurement and Application (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Certificates of deposit are reported at cost, and the City's other investments have the following fair value measurements as of June 30, 2016:

		<u>Fair Value Measurements Using:</u>	
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)
<u>Description</u>			
Investments by fair value level:			
Debt securities			
U.S. Treasury securities	\$ 147,160	\$ -	\$ 147,160
Corporate bonds	418,199	-	418,199
Equity securities	1,586,755	1,586,755	-

## 5. Taxes Receivable

The City bills property taxes on a semi-annual basis and they are due in July and December. Property tax revenues are recognized in the year for which taxes have been levied to the extent that they become available, i.e., due or receivable, within the current year and collected within the current period or within 60 days of year end.

Property taxes collected before the due date, and in advance of the year for which they are levied, are recorded as a prepaid tax liability, as they are intended to finance the subsequent year's budget.

At the time of tax lien, which the City usually processes in May for the previous levy year, a lien is recorded on the property at the Registry of Deeds. The City Council approves conveyance of lien property to the City. Afterwards, the City Council sets a date for public sale.

The City annually raises through tax levy an amount (overlay for abatements) for property tax abatements and interest refunds. All abatements and interest refunds are charged to overlay.

Taxes receivable at June 30, 2016 consist of the following:

Current Use Tax		\$	15,380
Yield Tax			4,913
Unredeemed Taxes:			
2015	\$	1,298,969	
2014		919,311	
2013		526,126	
2012		277,220	
2011		229,504	
2010 and prior		<u>753,694</u>	
			4,004,824
Elderly Liens			<u>6,185</u>
Total		\$	<u><u>4,031,302</u></u>

#### Taxes Collected for Others

The City collects property taxes for the State of New Hampshire, the Rochester School District, and the County of Strafford. Payments to the other taxing units are normally made throughout the year. The ultimate responsibility for the collection of taxes rests with the City.

### **6. Allowance for Doubtful Accounts**

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts:

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 1,225,147	\$ -
User fees:		
Water	\$ -	\$ 100,066
Sewer	\$ -	\$ 123,642

### **7. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2016.

## 8. Interfund Fund Accounts

### Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2016 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 4,367,274	\$ 4,158,470
Capital Projects Fund	-	3,545,498
Non Major Funds:		
Special Revenue Funds		
Community Center	343,000	-
Planning	19,059	-
Granite State Business Park TIF - I	692,266	-
Granite State Business Park TIF - II	86,913	-
Safran TIF	121,571	-
Granite Ridge TIF	118,010	-
CDBG	-	71,257
Police Grants	7,228	-
Other Grants	2,715	-
School Grants	-	671,806
School Lunch	51,373	-
Subtotal Nonmajor Funds	1,442,135	743,063
Business Type Activities:		
Enterprise Funds		
Water	524,328	-
Sewer	2,076,446	-
Non Major Enterprise - Arena	-	78,713
Agency Funds	115,561	-
Total	\$ <u>8,525,744</u>	\$ <u>8,525,744</u>

### Transfers

The City reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers:

<u>Fund:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 255,876	\$ 3,378,098
Capital Projects Fund	3,202,464	29,614
Nonmajor Funds:		
Special Revenue Funds:		
Granite State Business Park TIF	-	90,000
Police Grants	5,600	-
Other Grants	<u>17,778</u>	<u>-</u>
Subtotal Nonmajor Funds	23,378	90,000
 <u>Business-Type Funds:</u>		
Enterprise Funds		
Water Fund	-	27,252
Sewer Fund	-	27,252
Non Major Enterprise - Arena	<u>70,498</u>	<u>-</u>
Subtotal Business-Type Funds:	<u>70,498</u>	<u>54,504</u>
 Total	<u>\$ 3,552,216</u>	<u>\$ 3,552,216</u>

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Land improvements	\$ 5,893,884	\$ 168,984	\$ -	\$ 6,062,868
Buildings and improvements	66,320,414	731,278	-	67,051,692
Vehicles and equipment	20,075,259	2,053,451	(183,133)	21,945,577
Infrastructure	<u>151,614,352</u>	<u>3,614,509</u>	<u>-</u>	<u>155,228,861</u>
Total capital assets, being depreciated	243,903,909	6,568,222	(183,133)	250,288,998
Less accumulated depreciation for:				
Land improvements	(3,691,799)	(208,310)	-	(3,900,109)
Buildings and improvements	(26,396,095)	(1,313,984)	-	(27,710,079)
Vehicles and equipment	(13,754,199)	(1,354,283)	183,133	(14,925,349)
Infrastructure	<u>(109,335,184)</u>	<u>(3,785,780)</u>	<u>-</u>	<u>(113,120,964)</u>
Total accumulated depreciation	<u>(153,177,277)</u>	<u>(6,662,357)</u>	<u>183,133</u>	<u>(159,656,501)</u>
Total capital assets, being depreciated, net	90,726,632	(94,135)	-	90,632,497
Capital assets, not being depreciated:				
Land	8,425,351	41,400	-	8,466,751
Easement	1,422,250	-	-	1,422,250
Construction in progress	<u>17,521,899</u>	<u>10,443,293</u>	<u>(6,331,481)</u>	<u>21,633,711</u>
Total capital assets, not being depreciated	<u>27,369,500</u>	<u>10,484,693</u>	<u>(6,331,481)</u>	<u>31,522,712</u>
Governmental activities capital assets, net	<u>\$ 118,096,132</u>	<u>\$ 10,390,558</u>	<u>\$ (6,331,481)</u>	<u>\$ 122,155,209</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Land improvements	\$ 977,059	\$ -	\$ -	\$ 977,059
Buildings and improvements	52,901,109	5,059,743	-	57,960,852
Vehicles and equipment	7,115,315	193,253	-	7,308,568
Infrastructure	<u>54,009,501</u>	<u>3,764,378</u>	<u>-</u>	<u>57,773,879</u>
Total capital assets, being depreciated	115,002,984	9,017,374	-	124,020,358
Less accumulated depreciation for:				
Land improvements	(106,007)	(38,938)	-	(144,945)
Buildings and improvements	(20,466,015)	(1,216,711)	-	(21,682,726)
Vehicles and equipment	(4,556,974)	(383,809)	-	(4,940,783)
Infrastructure	<u>(16,441,460)</u>	<u>(1,089,495)</u>	<u>-</u>	<u>(17,530,955)</u>
Total accumulated depreciation	<u>(41,570,456)</u>	<u>(2,728,953)</u>	<u>-</u>	<u>(44,299,409)</u>
Total capital assets, being depreciated, net	73,432,528	6,288,421	-	79,720,949
Capital assets, not being depreciated:				
Land	3,511,364	65,826	-	3,577,190
Construction in progress	<u>8,462,773</u>	<u>4,467,414</u>	<u>(9,072,663)</u>	<u>3,857,524</u>
Total capital assets, not being depreciated	<u>11,974,137</u>	<u>4,533,240</u>	<u>(9,072,663)</u>	<u>7,434,714</u>
Business-type activities capital assets, net	<u>\$ 85,406,665</u>	<u>\$ 10,821,661</u>	<u>\$ (9,072,663)</u>	<u>\$ 87,155,663</u>

Depreciation expense was charged to functions of the City as follows:

<b>Governmental Activities:</b>	
General government	\$ 282,403
Public safety	560,790
Highway and streets	4,093,403
Education	1,648,368
Culture and recreation	53,395
Community services	21,549
Economic development	<u>2,449</u>
Total depreciation expense - governmental activities	<u>\$ 6,662,357</u>
<b>Business-Type Activities:</b>	
Water	\$ 1,324,954
Sewer	1,342,383
Arena	<u>61,616</u>
Total depreciation expense - business-type activities	<u>\$ 2,728,953</u>

## 10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2016:

	Entity-wide Basis		Fund Basis	
	Governmental Activities	Business-type Activities	Proprietary Funds Water	Sewer
Loss on refunding	\$ 616,926	\$ 222,720	\$ 165,692	\$ 57,028
Pension related:				
Changes in proportion and differences between pension contributions and proportionate share of contributions	1,140,129	26,544	13,668	12,876
Pension contributions subsequent to the measurement date	5,846,751	51,393	26,832	24,561
Total	<u>\$ 7,603,806</u>	<u>\$ 300,657</u>	<u>\$ 206,192</u>	<u>\$ 94,465</u>

#### 11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent 2016 expenditures paid after June 30, 2016.

#### 12. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Board of Tax and Land Appeals.

#### 13. Notes Payable

The City did not have any anticipation notes outstanding at year end.

The following summarizes the anticipation note activity during fiscal year 2016:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
	\$ 2,950,000	\$ -	\$ (2,950,000)	\$ -
Total	<u>\$ 2,950,000</u>	<u>\$ -</u>	<u>\$ (2,950,000)</u>	<u>\$ -</u>

#### 14. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2018. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2016:



<u>Governmental</u>	<u>Capital Leases</u>
2017	\$ 141,942
2018	<u>141,941</u>
Total minimum lease payments	283,883
Less amounts representing interest	<u>11,018</u>
Present Value of Minimum Lease Payments	<u><u>\$ 272,865</u></u>

## 15. Long-Term Debt

### A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/16</u>
1996 Series Bond Issue	08/15/16	5.625-5.75%	\$ 56,000
1997 Series Bond Issue	08/15/17	4.70-5.30%	130,000
1998 Series A Bond Issue	08/15/18	4.91%	228,780
2002 Series Bond Issue	08/15/22	4.25-4.70%	2,188,000
2005 QZAB	12/29/20	0.00%	460,970
2007 Bond Issue - Refinancing - 13 year	08/15/20	5.50-5.80%	1,695,882
2008 Series Bond Issue - 20 year	02/15/28	3.00-5.00%	957,494
2008 Series Bond Issue - 10 year	02/15/18	5.25-6.50%	62,172
2008 Series Bond Issue - 10 year	02/15/18	3.00-5.00%	521,984
2008 Series A NHMBB - 20 year	08/15/28	4.00-5.25%	450,000
2010 Series Bond Issue - 10 year	01/15/20	2.00-3.25%	796,400
2010 Series Bond Issue - 20 year	01/15/30	2.00-4.00%	2,022,636
2012 Series B Bond Issue - 20 year - TIF	03/15/32	1.00-3.25%	3,915,024
2012 Series A Bond Issue - 20 year	03/15/32	2.00-3.00%	1,740,000
2012 Series A Bond Issue - 10 year	03/15/22	2.00-3.00%	85,000
2013 Series A - Refunding 2004 bonds	07/15/24	2.00-3.00%	3,366,561
2014 State Revolving Loan - Washington St Phase 4	06/01/33	3.39%	318,876
2015 Series A Bond Issue - 20 year	03/01/35	2.00-3.25%	3,862,371
2015 Series A Bond Issue - 5 year	03/01/20	2.00-3.00%	446,225
2015 Series A Bond Issue - 10 year	03/01/25	2.00-3.00%	4,683,853
2012 Series B Bond Issue - 20 year - Repurposed	03/15/32	2.00-3.25%	103,995
2015 Series C Bond Issue - 20 year	10/15/35	2.50-5.00%	11,415,000
2015 Series D Bond Issue - 10 year - TIF	10/15/26	2.25-4.00%	3,695,000
2015 Refunding - Series 2005 - 5 year	01/15/21	2.00%	91,234
2015 Refunding - Series 2005 - 10 year	01/15/26	2.00-2.25%	1,880,585
2016 Refunding - Series 2008 - 10 year	02/15/28	1.94%	<u>5,167,929</u>
Total Governmental Activities:			<u><u>\$ 50,341,971</u></u>

	Serial	Interest	Amount
<u>Business-Type Activities:</u>	<u>Maturities</u>	<u>Rate(s) %</u>	<u>Outstanding</u>
	<u>Through</u>		<u>as of</u>
			<u>6/30/16</u>
1996 Series Bond Issue	08/15/16	5.625-5.75%	\$ 14,000
1998 Series A Bond Issue	08/15/18	3.90-4.75%	161,220
2002 Series Bond Issue	08/15/22	4.25-4.70%	743,000
2005 State Revolving Loan - Chestnut Hill	08/01/25	3.49%	439,844
2007 State Revolving Loan - Homemakers	07/01/27	2.14%	231,017
2007 State Revolving Loan - Ground Water Supply	09/01/26	3.35%	275,946
2007 Refinancing Bonds - 13 year	08/15/20	5.50-5.80%	374,117
2008 Series Bond Issue - 20 year	02/15/28	3.00-5.00%	552,506
2008 Series Bond Issue - 10 year	02/15/18	5.25-6.50%	212,828
2008 Series Bond Issue - 10 year	02/15/18	3.00-5.00%	188,016
2009 State Revolving Loan - East Rochester I&I	12/01/27	3.69%	1,111,433
2009 State Revolving Loan - South Main/Solar Bee Pilot	08/01/28	3.49%	867,828
2010 State Revolving Loan - South Main Street	02/01/29	2.95%	416,831
2010 Series Bond Issue - 10 year	01/15/20	2.00-3.25%	503,087
2010 Series Bond Issue - 20 year	01/15/30	2.00-4.00%	2,327,881
2011 Round Pond Land Purchase	04/06/20	0.00%	150,000
2010 State Revolving Loan - Washington Street	12/01/30	2.86%	1,647,063
2012 Series A Bond Issue - 20 year	03/15/32	2.00-3.00%	800,000
2013 State Revolving Loan - Cochecho Well	09/01/31	3.10%	1,484,702
2013 State Revolving Loan - Headworks	02/01/32	2.72%	1,118,679
2013 State Revolving Loan - Washington St Pump Station	07/01/31	3.10%	517,078
2013 Series B Bond Issue - Refunding 2004 bonds	08/01/20	2.00-4.00%	4,570,000
2013 Series A Bond Issue - Refunding 2004 bonds	07/15/24	2.00-3.00%	983,433
2014 State Revolving Loan - Washington & Pine St	12/01/32	2.72%	176,815
2014 State Revolving Loan - Washington St Phase 4	06/01/33	3.39%	405,019
2015 Series A Bond Issue - 20 year	03/01/35	2.00-3.25%	3,236,791
2015 Series A Bond Issue - 5 year	03/01/20	2.00-3.00%	978,491
2015 Series A Bond Issue - 20 year	03/01/35	2.00-3.25%	406,121
2015 Series A Bond Issue - 10 year	03/01/25	2.00-3.00%	3,166,147
2012 Series B Bond Issue - 20 year - repurposed	03/15/32	2.00-3.25%	93,595
2012 Series B Bond Issue - 20 year - repurposed	03/15/32	2.00-3.25%	322,386
2015 Refunding Series 2005 - 10year	01/15/26	2.00-2.25%	113,181
2016 Refunding Series 2008 - 10 year	02/15/28	1.94%	2,982,068
2016 State Revolving Loan - New Rte 125 Pump Station	06/01/35	2.55%	337,211
Total Business-Type Activities:			<u>\$ 31,908,334</u>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 4,346,286	\$ 1,786,411	\$ 6,132,697
2018	4,648,158	1,434,031	6,082,189
2019	4,370,679	1,272,122	5,642,801
2020	4,285,432	1,131,910	5,417,342
2021	4,068,422	993,972	5,062,394
2022 - 2026	16,308,953	3,191,512	19,500,465
2027 - 2031	8,022,956	1,235,485	9,258,441
Thereafter	<u>4,291,085</u>	<u>311,029</u>	<u>4,602,114</u>
Total	<u>\$ 50,341,971</u>	<u>\$ 11,356,472</u>	<u>\$ 61,698,443</u>

The general fund has been designated as the sole source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2016.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,450,215	\$ 986,798	\$ 4,437,013
2018	3,420,240	879,676	4,299,916
2019	3,259,740	782,507	4,042,247
2020	3,202,105	682,972	3,885,077
2021	2,908,826		2,908,826
2022 - 2026	9,083,940		9,083,940
2027 - 2031	5,205,179		5,205,179
Thereafter	<u>1,378,089</u>		<u>1,378,089</u>
Total	<u>\$ 31,908,334</u>	<u>\$ 3,331,953</u>	<u>\$ 35,240,287</u>

### C. Changes in General Long-Term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities:

	Total Balance 7/1/15	Additions	Reductions	Total Balance 6/30/16	Less Current Portion	Equals Long-Term Portion 6/30/16
<u>Governmental Activities</u>						
Bonds payable <sup>1</sup>	\$ 39,848,343	\$ 22,249,748	\$ (11,756,120)	\$ 50,341,971	\$ (4,346,286)	\$ 45,995,685
Bond premium	432,095	995,000	(56,557)	1,370,538	(113,428)	1,257,110
Capital lease payable	403,980	-	(131,115)	272,865	(134,629)	138,236
Compensated absences	2,199,392	126,501	-	2,325,893	(232,589)	2,093,304
Other post employment benefits	4,766,340	665,031	-	5,431,371	-	5,431,371
Net pension liability	59,909,811	-	2,261,339	62,171,150	-	62,171,150
Totals	<u>\$ 107,559,961</u>	<u>\$ 24,036,280</u>	<u>\$ (9,682,453)</u>	<u>\$ 121,913,788</u>	<u>\$ (4,826,932)</u>	<u>\$ 117,086,856</u>
<u>Business-Type Activities</u>						
Bonds payable <sup>1</sup>	\$ 34,771,736	\$ 3,568,465	\$ (6,431,867)	\$ 31,908,334	\$ (3,450,215)	\$ 28,458,119
Bond premium	525,619	-	(120,603)	405,016	(101,184)	303,832
Compensated absences	138,053	-	(3,667)	134,386	(13,439)	120,947
SRF loan proceeds <sup>2</sup>	1,963,683	284,771	-	2,248,454	-	2,248,454
Other post employment benefits	514,965	69,985	-	584,950	-	584,950
Net pension liability	1,896,709	-	135,459	2,032,168	-	2,032,168
Totals	<u>\$ 39,810,765</u>	<u>\$ 3,923,221</u>	<u>\$ (6,420,678)</u>	<u>\$ 37,313,308</u>	<u>\$ (3,564,838)</u>	<u>\$ 33,748,470</u>

<sup>1</sup> Bonds payable additions/reductions includes the current year refunding issues.

<sup>2</sup> This balance represents the drawdown proceeds from the State of New Hampshire through the State Revolving Loan Program. The State Revolving Loan program provides low interest loans to assist communities with the design and construction of various types of projects, and the proceeds are disbursed as eligible costs are incurred through drawdowns. Upon completion of the project, the original financial assistant agreement shall be amended to reflect actual project expenditures. A supplemental agreement will then be executed between the State and the City containing the final project cost and the repayment schedule.

### D. Advance and Current Refundings

#### Current Year

On October 28, 2015, the City issued general obligation bonds in the amount of \$2,085,000 (Governmental \$1,971,819 and Business \$113,181) with interest rates ranging from 2.00% to 2.25% to advance refund \$2,035,000 of bonds with interest rates ranging from 4.25% to 4.40%. The bonds mature on January 15, 2026 and are callable on January 15, 2016. The general obligation bonds were issued at 1.77% and, after paying issuance costs of \$41,920, the net proceeds were \$2,078,577. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are called on January 15, 2016. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the City's financial statements.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by \$232,797, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$216,243.

Defeased debt still outstanding at June 30, 2016 is \$2,035,000.

On May 18, 2016, the City issued general obligation bonds in the amount of \$8,150,000 (Governmental \$5,167,929 and Business \$2,982,071) with an interest rate of 1.94% to advance refund \$7,550,000 of bonds with interest rates ranging from 4.00% to 4.50%. The bonds mature on February 15, 2028 and are callable on February 15, 2018. The general obligation bonds were issued at 1.94% and, after paying issuance costs of \$50,000, the net proceeds were \$8,096,257. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are called on February 15, 2018. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's financial statements.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by \$746,382, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$695,138.

Defeased debt still outstanding at June 30, 2016 is \$7,550,000.

## **16. Deferred Inflows of Resources**

Deferred inflows of resources are the acquisition of net assets by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2016:

	Entity-wide Basis		Fund Basis			
	Governmental Activities	Business-type Activities	Governmental Funds General Fund	Nonmajor	Proprietary Funds Water	Sewer
Unavailable revenues	\$ 98,099	\$ 284,436	\$ 98,099	\$ -	\$ -	\$ 284,436
Taxes collected in advance	20,526,087	-	20,526,087	-	-	-
Unavailable revenues - property tax	-	-	3,869,578	-	-	-
Unearned grant revenue	239,175	-	-	239,175	-	-
Pension related:						
Differences between expected and actual experience	1,364,283	44,594	-	-	23,042	21,552
Net difference between projected and actual pension investment earnings	1,661,599	54,312	-	-	28,063	26,249
Changes in proportion and differences between pension contributions and proportionate share of contributions	1,984,087	74,990	-	-	38,741	36,249
	<u>\$ 25,873,330</u>	<u>\$ 458,332</u>	<u>\$ 24,493,764</u>	<u>\$ 239,175</u>	<u>\$ 89,846</u>	<u>\$ 368,486</u>

## 17. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

## 18. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The City has implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2016:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund

reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Assigned - Represents amounts that are constrained by the City's intent to use these resources for a specific purpose.

Unassigned - Represents amounts that are available to be spent in future periods and deficit funds.

Following is a breakdown of the City's fund balances at June 30, 2016:

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Prepaid expenditures	\$ 30,633	\$ -	\$ -	\$ 30,633
Nonexpendable permanent funds	<u>-</u>	<u>-</u>	<u>47,364</u>	<u>47,364</u>
Total Nonexpendable	30,633	-	47,364	77,997
Restricted				
Community development	64,536	-	-	64,536
Conservation	105,824	-	-	105,824
Special revenue funds	-	-	1,596,215	1,596,215
Expendable permanent funds	<u>-</u>	<u>-</u>	<u>48,571</u>	<u>48,571</u>
Total Restricted	170,360	-	1,644,786	1,815,146
Assigned				
Reserved for expenditures	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Total Assigned	20,000	-	-	20,000
Unassigned				
General fund	16,346,532	-	-	16,346,532
Capital projects fund - deficit	<u>-</u>	<u>(3,928,286)</u>	<u>-</u>	<u>(3,928,286)</u>
Total Unassigned	<u>16,346,532</u>	<u>(3,928,286)</u>	<u>-</u>	<u>12,418,246</u>
Total Fund Balance	<u>\$ 16,567,525</u>	<u>\$ (3,928,286)</u>	<u>\$ 1,692,150</u>	<u>\$ 14,331,389</u>

## 19. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how unassigned fund balance is reported in accordance with the budgetary basis for reporting for the State of New Hampshire for tax

rate setting purposes. The major difference is the State of New Hampshire considers revenues in connection with property tax receivables to be available to liquidate liabilities when billed rather than received.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis	\$ 16,346,532
Reserve for prepaid expenditures	(19,526)
Tax deeded property	<u>122,279</u>
Tax Rate Setting balance	<u>\$ 16,449,285</u>

## 20. **Commitments and Contingencies**

Outstanding Legal Issues – On an ongoing basis, there are typically pending legal issues in which the City is involved. The City’s management is of the opinion that the potential future settlement of these issues would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

## 21. **Post-Employment Healthcare and Life Insurance Benefits**

### **Other Post-Employment Benefits**

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

#### **A. Plan Description**

The City provides its eligible retirees, including in some cases their beneficiaries (as governed by RSA 100-A:50), the ability to purchase health,



dental, and prescription insurance at the City's group rates. Although the City does not supplement the cost of these plans, GASB Statement 45 requires the City to recognize the liability for the inclusion of any implicit rate subsidies afforded its retirees. This subsidy is generated as a result of the basic nature of insurance - one risk group subsidizes another to arrive at a blended premium; therefore, current employees who are young and healthy subsidized the older retirees. As of June 30, 2016, there were 54 retiree subscribers, including eligible spouses and dependents, and 592 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

**B. Benefits Provided**

The City provides medical, prescription drug, mental health/substance abuse, and life insurance benefits to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

**C. Funding Policy**

Retirees contribute 100% of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

**D. Annual OPEB Costs and Net OPEB Obligation**

The City's fiscal 2016 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2016, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2015.

Annual Required Contribution (ARC)	\$ 1,159,050
Interest on net OPEB obligation	237,659
Adjustment to ARC	<u>(225,107)</u>
Annual OPEB cost	1,171,602
Contributions made	<u>(436,586)</u>
Increase in net OPEB obligation	735,016
Net OPEB obligation - beginning of year	<u>5,281,305</u>
Net OPEB obligation - end of year	<u><u>\$ 6,016,321</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 1,159,050	19.3%	\$ 6,016,321
2015	\$ 1,181,419	33.9%	\$ 5,281,305
2014	\$ 1,246,813	35.5%	\$ 4,500,422

*E. Funded Status and Funding Progress*

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

Actuarial accrued liability (AAL)	\$ 11,340,142
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 11,340,142</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 45,938,472</u>
UAAL as a percentage of covered payroll	<u>24.7%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. 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 with past expectations and new estimates are made about the future. The Schedule of OPEB Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*F. Actuarial Methods and Assumptions*

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. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial

accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined, as the City has not advance funded its obligation. The actuarial assumptions included a 4.5% investment rate of return and an initial annual healthcare cost trend rate of 8.5% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 3%.

## **22. Retirement System**

The City follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the State of New Hampshire Retirement System (NHRS).

### **A. Plan Description**

Full-time employees participate in the New Hampshire Retirement System (NHRS), a cost sharing, multiple-employer defined benefit contributory pension plan and trust established in 1967 by RSA 100-A:2 and qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death, and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and permanent police officers within the State of New Hampshire are eligible and required to participate in the system. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to *Group I*. Police officers and firefighters belong to *Group II*. All assets are held in a single trust and are available to each group. Additional information is disclosed in the NHRS annual report publicly available from the New Hampshire Retirement System located at 54 Regional Drive, Concord, New Hampshire 03301-8507.

## *B. Benefits Provided*

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

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

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

## *C. Contributions*

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 7% for employees and teachers 11.55% for police and 11.80% for fire. The City and School make annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and range from 11.17% to 29.16% of covered compensation. The City's and School's contributions to NHRS for the year ended June 30, 2016 were \$2,608,946 and \$2,968,649, respectively, which were equal to its annual required contribution.

## *D. Summary of Significant Accounting Policies*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the NHRS

and additions to/deductions from NHRS' fiduciary net position have been determined on the same basis as they are reported by NHRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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

At June 30, 2016, the City and School reported a liability of \$23,333,954 and \$40,869,364, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The City's and School's proportion of the net pension liability was based on a projection of the City's and School's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the City's and School's proportion were .58020698 and 1.06639240 percent, respectively.

At the most recent measurement date of June 30, 2015, the City's and School's proportion were .58901411 and 1.03165681 percent, which were an increase of .00880713 and a decrease of .03473559 from its previous year proportion.

For the year ended June 30, 2016, the City and School recognized pension expense of \$1,338,108 and \$2,607,191, respectively. In addition, the City and School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,408,878
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,715,910
Changes in proportion and differences between contributions and proportionate share of contributions	1,166,584	2,059,077
Contributions subsequent to the measurement date	<u>5,898,233</u>	<u>-</u>
Total	<u>\$ 7,064,817</u>	<u>\$ 5,183,865</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ 4,459,123
2018	(1,439,110)
2019	(1,439,110)
2020	506,613
2021	<u>(206,564)</u>
Total	<u>\$ 1,880,952</u>

*F. Actuarial Assumptions*

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2005 – June 30, 2010.

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

<u>Asset Class</u>	<u>Target Allocation Percentage</u>	<u>Weighted Average Average Long- Term Expected Real Rate of Return</u>
Large Cap Equities	22.50 %	3.00%
Small/Mid Cap Equities	<u>7.50</u>	3.00%
Total domestic equities	30.00	
Int'l Equities (unhedged)	13.00	4.00%
Emerging Int'l Equities	<u>7.00</u>	6.00%
Total international equities	20.00	
Core Bonds	4.50	-0.70%
Short Duration	2.50	-1.00%
Global Multi-Sector Fixed Income	11.00	0.28%
Unconstrained Fixed Income	<u>7.00</u>	0.16%
Total fixed income	25.00	
Private equity	5.00	5.50%
Private debt	5.00	4.50%
Real estate	10.00	3.50%
Opportunistic	<u>5.00</u>	2.75%
Total alternative investments	<u>25.00</u>	
Total	<u><u>100.00</u></u> %	

**G. Discount Rate**

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the pension plan's actuarial funding policy and as required by RSA 100-A:16. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*H. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the City's and School's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's and School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.75%) or one percentage-point higher (8.75%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
June 30, 2016	\$ 84,515,403	\$ 64,203,318	\$ 46,887,215

*I. Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued NHRS financial report.

**23. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.



**CITY OF ROCHESTER, NEW HAMPSHIRE  
SCHEDULE OF OPEB FUNDING PROGRESS  
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2016  
(Unaudited)**

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/15	\$ -	\$ 11,340,142	\$ 11,340,142	0.0%	\$ 45,938,472	24.7%
07/01/14	\$ -	\$ 11,310,380	\$ 11,310,380	0.0%	\$ 44,600,458	25.4%
07/01/13	\$ -	\$ 11,668,357	\$ 11,668,357	0.0%	\$ 45,737,594	25.5%

See Independent Auditors' Report.

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016**  
**(Unaudited)**

New Hampshire Retirement System					
<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	1.62067092%	\$ 64,203,318	\$ 41,436,575	154.94%	65.47%
June 30, 2015	1.64659938%	\$ 61,806,520	\$ 41,524,704	148.84%	66.32%

*Schedules are intended to show information for 10 years. Additional years will be displayed as they become available*

See Independent Auditors' Report.

**CITY OF ROCHESTER, NEW HAMPSHIRE**

**SCHEDULE OF PENSION CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016  
(Unaudited)**

New Hampshire Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$ 5,577,595	\$ (5,577,595)	\$ -	\$ 42,596,488	13.09%
June 30, 2015	\$ 5,416,120	\$ (5,416,120)	\$ -	\$ 41,436,575	13.07%

*Schedules are intended to show information for 10 years. Additional years will be displayed as they become available*

See Independent Auditors' Report.