

CITY OF ROCHESTER, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2017

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, 2017, 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, 2017, 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, and the Pension and OPEB schedules appearing on pages 53 to 55 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 24, 2018 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 24, 2018

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, 2017.

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 fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for water, sewer and arena operations, which are considered to be major funds.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by 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 and deferred outflows exceeded liabilities and deferred inflows by \$75,801,428 (i.e., net position), a change of \$288,119 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$17,937,877, a change of \$3,606,488 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$16,559,106, a change of \$212,574 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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 53,222,403	\$ 47,026,452	\$ 5,363,724	\$ 5,678,087	\$ 58,586,127	\$ 52,704,539
Capital assets	<u>127,235,584</u>	<u>122,155,209</u>	<u>93,985,251</u>	<u>87,155,663</u>	<u>221,220,835</u>	<u>209,310,872</u>
Total assets	180,457,987	169,181,661	99,348,975	92,833,750	279,806,962	262,015,411
Deferred outflows	24,386,617	7,603,806	1,014,903	300,657	25,401,520	7,904,463
Current liabilities	21,039,774	14,571,477	(1,211,901)	2,668,100	19,827,873	17,239,577
Noncurrent liabilities	<u>146,304,403</u>	<u>117,086,856</u>	<u>42,020,791</u>	<u>33,748,470</u>	<u>188,325,194</u>	<u>150,835,326</u>
Total liabilities	167,344,177	131,658,333	40,808,890	36,416,570	208,153,067	168,074,903
Deferred inflows	20,863,796	25,873,330	390,191	458,332	21,253,987	26,331,662
Net position:						
Net investment in capital assets	67,588,058	66,241,549	45,628,031	53,291,835	113,216,089	119,533,384
Restricted	1,003,137	1,692,116	-	-	1,003,137	1,692,116
Unrestricted	<u>(51,954,564)</u>	<u>(48,679,861)</u>	<u>13,536,766</u>	<u>2,967,670</u>	<u>(38,417,798)</u>	<u>(45,712,191)</u>
Total net position	<u>\$ 16,636,631</u>	<u>\$ 19,253,804</u>	<u>\$ 59,164,797</u>	<u>\$ 56,259,505</u>	<u>\$ 75,801,428</u>	<u>\$ 75,513,309</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$75,801,428, a change of \$288,119 from the prior year.

The largest portion of net position, \$113,216,089, 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, \$1,003,137, 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 \$(38,417,798), primarily resulting from the City's unfunded net pension liability.

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 5,065,921	\$ 5,048,295	\$ 8,621,629	\$ 8,462,814	\$ 13,687,550	\$ 13,511,109
Operating grants and contributions	35,109,972	35,727,426	10,000	10,000	35,119,972	35,737,426
Capital grants and contributions	767,518	148,821	1,825,436	285,781	2,592,954	434,602
General revenues:						
Property taxes	46,909,242	45,205,832	-	-	46,909,242	45,205,832
Licenses and permits	5,575,200	5,209,592	103,173	104,264	5,678,373	5,313,856
Penalties and interest on taxes	1,400,698	1,326,307	13,227	12,109	1,413,925	1,338,416
Grants and contributions not restricted to specific programs	2,154,094	2,039,579	-	-	2,154,094	2,039,579
Investment income	137,140	80,075	5,000	5,000	142,140	85,075
Other	952,939	1,894,470	1,543,592	720,401	2,496,531	2,614,871
Total revenues	98,072,724	96,680,397	12,122,057	9,600,369	110,194,781	106,280,766
Expenses:						
General government	6,826,661	5,112,010	-	-	6,826,661	5,112,010
Public safety	14,063,778	12,681,498	-	-	14,063,778	12,681,498
Highway and streets	7,719,797	6,596,111	-	-	7,719,797	6,596,111
Education	66,426,082	62,025,120	-	-	66,426,082	62,025,120
Health and welfare	399,505	369,662	-	-	399,505	369,662
Culture and recreation	1,957,681	1,900,451	-	-	1,957,681	1,900,451
Community development	411,860	563,844	-	-	411,860	563,844
Community services	785,146	778,346	-	-	785,146	778,346
Conservation	901	13,660	-	-	901	13,660
Interest on long-term debt	2,152,496	1,794,763	-	-	2,152,496	1,794,763
Water	-	-	4,301,335	4,038,594	4,301,335	4,038,594
Sewer	-	-	4,407,298	4,167,971	4,407,298	4,167,971
Nonmajor enterprise	-	-	454,122	457,425	454,122	457,425
Total expenses	100,743,907	91,835,465	9,162,755	8,663,990	109,906,662	100,499,455
Change in net position before transfers	(2,671,183)	4,844,932	2,959,302	936,379	288,119	5,781,311
Transfers in (out)	54,010	(15,994)	(54,010)	15,994	-	-
Change in net position	(2,617,173)	4,828,938	2,905,292	952,373	288,119	5,781,311
Net position - beginning of year	19,253,804	14,424,866	56,259,505	55,307,132	75,513,309	69,731,998
Net position - end of year	\$ 16,636,631	\$ 19,253,804	\$ 59,164,797	\$ 56,259,505	\$ 75,801,428	\$ 75,513,309

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(2,617,173). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 947,664
Other governmental funds operations	2,658,824
Depreciation expense in excess of principal debt service	(2,848,248)
Other	<u>(3,375,413)</u>
Total	<u>\$ (2,617,173)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$2,905,292. Key elements of this change are as follows:

Water operations	\$ 1,098,653
Sewer operations	1,864,136
Nonmajor enterprise operations	<u>(57,497)</u>
Total	<u>\$ 2,905,292</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 \$17,937,877, a change of \$3,606,488 in comparison to the prior year. Key elements of this change are as follows:

General fund operations	\$ 947,664
Capital projects fund activity	3,347,837
Nonmajor fund activity	<u>(689,013)</u>
Total	<u>\$ 3,606,488</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 \$16,559,106, while total fund balance was \$17,515,189. 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>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 16,559,106	\$ 16,346,532	\$ 212,574	19.4%
Total fund balance	\$ 17,515,189	\$ 16,567,525	\$ 947,664	20.6%

The total fund balance of the general fund changed by \$947,664 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 2,320,325
Expenditures less than budget	1,390,119
Use of fund balance as a funding source	(3,749,484)
Change in capital reserves	796,326
Other timing issues	190,378
Total	<u>\$ 947,664</u>

Included in the total general fund balance are the City's capital reserve accounts with the following balances:

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
Capital reserves	\$ <u>796,326</u>	\$ <u>-</u>	\$ <u>796,326</u>
Total	\$ <u>796,326</u>	\$ <u>-</u>	\$ <u>796,326</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 \$13,536,766.

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 \$2,278,884. Major reasons for these amendments include:

- \$796,326 – City resolution to use unassigned fund balance to fund the School Building Fund Capital Reserve.
- \$450,000 – City resolution to use unassigned fund balance to purchase 294 Rochester Hill Road.

- \$350,000 – City resolution to use unassigned fund balance to fund the LED Street Light Project.
- \$250,000 – City resolution to use unassigned fund balance to purchase 296 Rochester Hill Road.
- \$128,650 – City resolution to use unassigned fund balance to purchase Gauthier Farm Conservation Easement.
- \$102,066 – City resolution to use unassigned fund balance to purchase 0 Rochester Hill Road.

F. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$221,220,835 (net of accumulated depreciation), a change of \$11,909,963 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:

City Hall Annex Project	\$	2,604,883
Honeywell Phase II	\$	2,021,531
Franklin Western Adams Reconstruction	\$	783,765
Granite Ridge TIF District	\$	701,389
HSIP - Salmon Falls Road	\$	531,815
Land 294 Rochester Hill Road	\$	450,000

Conversion of Construction in Progress to Depreciable Asset:

ER School Construction	\$	11,690,838
Granite Ridge TIF District	\$	3,984,043
District Security & Safety	\$	1,231,792
Sheridan Glen Granite Streets	\$	1,039,669

Business-type Activities:

New addition to Construction in Progress:

EDA Salmon Falls	\$	1,992,885
Franklin Western Adams Reconstruction	\$	1,340,995
Colonial Pines Sewer Evaluation	\$	1,164,496
Round Pond Augmentation	\$	564,447
Pump Station	\$	548,500

Conversion of Construction in Progress to Depreciable Asset:

Sheridan Glen	\$	1,659,945
Pump Station	\$	649,981

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 \$98,829,429, 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, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 41,141,225	\$ -	\$ 41,141,225
Investments	7,169,833	-	7,169,833
Receivables, net of allowance for uncollectibles:			
Property taxes	99,947	-	99,947
User fees	490,068	2,011,253	2,501,321
Intergovernmental	1,812,259	639,501	2,451,760
Other assets	149,706	355,342	505,048
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	2,359,365	-	2,359,365
Intergovernmental	-	2,357,628	2,357,628
Capital Assets:			
Land and construction in progress	21,122,959	12,726,302	33,849,261
Other assets, net of accumulated depreciation	106,112,625	81,258,949	187,371,574
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	23,847,951	814,455	24,662,406
Other	538,666	200,448	739,114
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	204,844,604	100,363,878	305,208,482
LIABILITIES			
Current:			
Accounts payable	3,340,710	969,495	4,310,205
Accrued liabilities	3,857,467	980,720	4,838,187
Internal balances	7,838,848	(7,709,244)	129,604
Other liabilities	82,021	5,173	87,194
Current portion of long-term liabilities:			
Bonds payable	5,363,099	4,355,859	9,718,958
Other	557,629	186,096	743,725
Noncurrent:			
Bonds payable, net of current portion	51,453,568	37,656,903	89,110,471
Net pension liability	84,848,826	2,733,406	87,582,232
Net OPEB obligation	6,058,864	641,378	6,700,242
Other, net of current portion	3,943,145	989,104	4,932,249
DEFERRED INFLOWS OF RESOURCES			
Related to pension	2,888,587	85,706	2,974,293
Other	17,975,209	304,485	18,279,694
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	188,207,973	41,199,081	229,407,054
NET POSITION			
Net investment in capital assets	67,588,058	45,628,031	113,216,089
Restricted for:			
Grants and other statutory restrictions	905,228	-	905,228
Permanent funds:			
Nonexpendable	50,451	-	50,451
Expendable	47,458	-	47,458
Unrestricted	(51,954,564)	13,536,766	(38,417,798)
TOTAL NET POSITION	\$ 16,636,631	\$ 59,164,797	\$ 75,801,428

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, 2017

	<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>
Governmental Activities:							
General government	\$ 6,826,661	\$ 918,506	\$ -	\$ 54,102	\$ (5,854,053)	\$ -	\$ (5,854,053)
Public safety	14,063,778	397,726	382,104	50,838	(13,233,110)	-	(13,233,110)
Highway and streets	7,719,797	32,450	-	662,578	(7,024,769)	-	(7,024,769)
Education	66,426,082	2,866,367	34,345,463	-	(29,214,252)	-	(29,214,252)
Health and welfare	399,505	-	-	-	(399,505)	-	(399,505)
Culture and recreation	1,957,681	136,438	14,354	-	(1,806,889)	-	(1,806,889)
Community development	411,860	-	368,051	-	(43,809)	-	(43,809)
Community services	785,146	714,434	-	-	(70,712)	-	(70,712)
Conservation	901	-	-	-	(901)	-	(901)
Interest	2,152,496	-	-	-	(2,152,496)	-	(2,152,496)
Total Governmental Activities	100,743,907	5,065,921	35,109,972	767,518	(59,800,496)	-	(59,800,496)
Business-Type Activities:							
Water operations	4,301,335	3,853,696	-	1,113,246	-	665,607	665,607
Sewer operations	4,407,298	4,394,994	-	712,190	-	699,886	699,886
Nonmajor enterprise fund operations	454,122	372,939	10,000	-	-	(71,183)	(71,183)
Total Business-Type Activities	9,162,755	8,621,629	10,000	1,825,436	-	1,294,310	1,294,310
Total	\$ 109,906,662	\$ 13,687,550	\$ 35,119,972	\$ 2,592,954	(59,800,496)	1,294,310	(58,506,186)
General Revenues and Transfers:							
Property taxes					46,909,242	-	46,909,242
Licenses and permits					5,575,200	103,173	5,678,373
Penalties, interest, and other taxes					1,400,698	13,227	1,413,925
Grants and contributions not restricted to specific programs					2,154,094	-	2,154,094
Investment income					137,140	5,000	142,140
Miscellaneous					952,939	1,543,592	2,496,531
Transfers, net					54,010	(54,010)	-
Total general revenues and transfers					57,183,323	1,610,982	58,794,305
Change in Net Position					(2,617,173)	2,905,292	288,119
Net Position:							
Beginning of year					19,253,804	56,259,505	75,513,309
End of year					\$ 16,636,631	\$ 59,164,797	\$ 75,801,428

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

CITY OF ROCHESTER, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 40,992,553	\$ -	\$ 148,672	\$ 41,141,225
Investments	7,074,411	-	95,422	7,169,833
Receivables:				
Property taxes	3,722,779	-	-	3,722,779
User fees	490,068	-	-	490,068
Intergovernmental	-	680,302	1,131,957	1,812,259
Due from other funds	1,039,097	519,034	870,680	2,428,811
Other assets	24,446	-	125,260	149,706
TOTAL ASSETS	\$ 53,343,354	\$ 1,199,336	\$ 2,371,991	\$ 56,914,681
LIABILITIES				
Accounts payable	\$ 1,951,931	\$ 1,245,640	\$ 143,139	\$ 3,340,710
Accrued liabilities	2,726,677	403,434	175,094	3,305,205
Due to other funds	9,555,069	-	712,590	10,267,659
Other liabilities	82,021	-	-	82,021
TOTAL LIABILITIES	14,315,698	1,649,074	1,030,823	16,995,595
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	21,512,467	130,711	338,031	21,981,209
FUND BALANCES				
Nonspendable	24,446	-	50,451	74,897
Restricted	115,311	-	952,686	1,067,997
Committed	796,326	-	-	796,326
Assigned	20,000	-	-	20,000
Unassigned	16,559,106	(580,449)	-	15,978,657
TOTAL FUND BALANCES	17,515,189	(580,449)	1,003,137	17,937,877
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 53,343,354	\$ 1,199,336	\$ 2,371,991	\$ 56,914,681

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, 2017

Total governmental fund balances	\$ 17,937,877
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	127,235,584
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	2,742,533
• Long-term liabilities, including bonds payable, net pension liability, and net OPEB liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(152,225,131)
• Other	<u>20,945,768</u>
Net position of governmental activities	<u><u>\$ 16,636,631</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, 2017

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 45,641,426	\$ -	\$ 1,169,714	\$ 46,811,140
Penalties, interest, and other taxes	1,400,698	-	-	1,400,698
Charges for services	3,651,362	-	1,414,559	5,065,921
Intergovernmental	29,601,466	767,518	5,508,506	35,877,490
Licenses and permits	5,575,200	-	-	5,575,200
Investment income	133,912	-	3,228	137,140
Miscellaneous	2,154,094	7,779	27,107	2,188,980
Contributions	812,403	-	-	812,403
Total Revenues	88,970,561	775,297	8,123,114	97,868,972
Expenditures:				
Current:				
General government	5,322,282	4,146,256	1,192	9,469,730
Public safety	12,125,497	735,515	396,882	13,257,894
Highway and streets	2,839,299	4,683,806	4,259	7,527,364
Education	56,985,599	2,550,532	5,595,336	65,131,467
Health and welfare	387,592	-	-	387,592
Culture and recreation	1,856,956	9,015	4,661	1,870,632
Community development	-	1,951	401,778	403,729
Community services	-	-	766,906	766,906
Conservation	901	-	-	901
Debt service	5,649,812	-	775,722	6,425,534
Capital outlay	-	-	750,791	750,791
Total Expenditures	85,167,938	12,127,075	8,697,527	105,992,540
Excess (deficiency) of revenues over expenditures	3,802,623	(11,351,778)	(574,413)	(8,123,568)
Other Financing Sources (Uses):				
Issuance of bonds	-	10,820,982	-	10,820,982
Bond premium	-	607,945	-	607,945
Issuance of capital lease	247,119	-	-	247,119
Issuance of refunding bonds	-	-	-	-
Payments to refunded escrow agent	-	-	-	-
Transfers in	618,748	3,712,570	90,502	4,421,820
Transfers out	(3,720,826)	(441,882)	(205,102)	(4,367,810)
Total Other Financing Sources (Uses)	(2,854,959)	14,699,615	(114,600)	11,730,056
Change in fund balance	947,664	3,347,837	(689,013)	3,606,488
Fund Equity, at Beginning of Year	16,567,525	(3,928,286)	1,692,150	14,331,389
Fund Equity, at End of Year	\$ 17,515,189	\$ (580,449)	\$ 1,003,137	\$ 17,937,877

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, 2017

Net changes in fund balances - total governmental funds	\$ 3,606,488
<ul style="list-style-type: none"> 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: 	
Capital outlay	12,280,345
Loss on disposal of assets	(5,436)
Depreciation	(7,194,534)
<ul style="list-style-type: none"> The issuance of long-term debt (e.g., bonds) 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: 	
Issuance of debt	(10,820,982)
Repayments of debt	4,346,286
Change in net pension liability	(22,677,676)
Change in net OPEB liability	(627,493)
Other	(531,478)
<ul style="list-style-type: none"> 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. 	
	98,102
<ul style="list-style-type: none"> Other differences. 	18,909,205
Change in net position of governmental activities	\$ <u>(2,617,173)</u>

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, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Property taxes	\$ 45,523,672	\$ 45,395,999	\$ 45,395,999	\$ -
Penalties, interest, and other taxes	1,157,814	1,248,901	1,400,698	151,797
Charges for services	3,600,834	4,091,937	3,651,362	(440,575)
Intergovernmental	31,238,577	31,309,609	31,755,560	445,951
Licenses and permits	4,088,540	4,088,540	5,575,200	1,486,660
Investment income	55,000	55,000	133,912	78,912
Miscellaneous	303,507	303,507	812,403	508,896
Transfers in	847,403	419,676	508,360	88,684
Use of fund balance	<u>1,568,422</u>	<u>3,749,484</u>	<u>3,749,484</u>	<u>-</u>
Total Revenues and Other Sources	88,383,769	90,662,653	92,982,978	2,320,325
Expenditures and Other Uses:				
General government	5,705,187	5,484,725	5,075,163	409,562
Public safety	12,484,876	12,644,613	12,125,497	519,116
Highway and streets	2,812,152	2,867,639	2,839,299	28,340
Education	57,093,455	57,252,074	56,985,599	266,475
Health and welfare	456,363	459,270	387,592	71,678
Culture and recreation	1,783,752	1,844,251	1,856,956	(12,705)
Debt service	5,916,084	5,757,465	5,649,812	107,653
Transfers out	<u>2,131,900</u>	<u>4,352,616</u>	<u>4,352,616</u>	<u>-</u>
Total Expenditures and Other Uses	<u>88,383,769</u>	<u>90,662,653</u>	<u>89,272,534</u>	<u>1,390,119</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,710,444</u>	\$ <u>3,710,444</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, 2017

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total
ASSETS				
Current:				
Due from other funds	\$ 2,381,413	\$ 5,507,937	\$ -	\$ 7,889,350
User fees, net of allowance for uncollectibles	959,827	1,051,026	400	2,011,253
Intergovernmental receivables	77,768	561,733	-	639,501
Other assets	<u>309,548</u>	<u>45,794</u>	<u>-</u>	<u>355,342</u>
Total current assets	3,728,556	7,166,490	400	10,895,446
Noncurrent:				
Intergovernmental receivables	-	2,357,628	-	2,357,628
Capital assets:				
Land and construction in progress	4,880,197	7,755,414	90,691	12,726,302
Other assets, net of accumulated depreciation	<u>32,727,047</u>	<u>47,080,273</u>	<u>1,451,629</u>	<u>81,258,949</u>
Total noncurrent assets	<u>37,607,244</u>	<u>57,193,315</u>	<u>1,542,320</u>	<u>96,342,879</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	416,896	397,559	-	814,455
Other	<u>149,123</u>	<u>51,325</u>	<u>-</u>	<u>200,448</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	41,901,819	64,808,689	1,542,720	108,253,228
LIABILITIES				
Current:				
Accounts payable	304,678	659,560	5,257	969,495
Accrued liabilities	420,523	546,068	14,129	980,720
Due to other funds	-	-	180,106	180,106
Other current liabilities	-	5,173	-	5,173
Current portion of long-term liabilities:				
Bonds payable	1,714,134	2,532,888	108,837	4,355,859
Other	<u>44,669</u>	<u>137,690</u>	<u>3,737</u>	<u>186,096</u>
Total current liabilities	2,484,004	3,881,379	312,066	6,677,449
Noncurrent:				
Bonds payable, net of current portion	18,519,458	18,206,504	930,941	37,656,903
Net pension liability	1,399,059	1,334,347	-	2,733,406
OPEB liability	283,466	307,478	50,434	641,378
Other, net of current portion	<u>353,355</u>	<u>603,856</u>	<u>31,893</u>	<u>989,104</u>
Total noncurrent liabilities	<u>20,555,338</u>	<u>20,452,185</u>	<u>1,013,268</u>	<u>42,020,791</u>
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	43,863	41,843	-	85,706
Other	<u>27,339</u>	<u>277,146</u>	<u>-</u>	<u>304,485</u>
TOTAL LIABILITIES AND DEFERRED OUTFLOWS OF RESOURCES	23,110,544	24,652,553	1,325,334	49,088,431
NET POSITION				
Net investment in capital assets	11,856,124	33,134,523	637,384	45,628,031
Unrestricted	<u>6,935,151</u>	<u>7,021,613</u>	<u>(419,998)</u>	<u>13,536,766</u>
TOTAL NET POSITION	<u>\$ 18,791,275</u>	<u>\$ 40,156,136</u>	<u>\$ 217,386</u>	<u>\$ 59,164,797</u>

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, 2017

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total
Operating Revenues:				
Charges for services	\$ 3,853,696	\$ 4,394,994	\$ 372,939	\$ 8,621,629
Other	<u>457,551</u>	<u>1,188,755</u>	<u>13,686</u>	<u>1,659,992</u>
Total Operating Revenues	4,311,247	5,583,749	386,625	10,281,621
Operating Expenses:				
Operating expenses	2,390,605	2,442,980	352,662	5,186,247
Depreciation	<u>1,379,417</u>	<u>1,454,428</u>	<u>68,003</u>	<u>2,901,848</u>
Total Operating Expenses	<u>3,770,022</u>	<u>3,897,408</u>	<u>420,665</u>	<u>8,088,095</u>
Operating Income (Loss)	541,225	1,686,341	(34,040)	2,193,526
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	1,113,246	712,190	10,000	1,835,436
Investment income	2,500	2,500	-	5,000
Interest expense	<u>(531,313)</u>	<u>(509,890)</u>	<u>(33,457)</u>	<u>(1,074,660)</u>
Total Nonoperating Revenues (Expenses), Net	<u>584,433</u>	<u>204,800</u>	<u>(23,457)</u>	<u>765,776</u>
Income (Loss) Before Transfers	1,125,658	1,891,141	(57,497)	2,959,302
Transfers:				
Transfers out	<u>(27,005)</u>	<u>(27,005)</u>	<u>-</u>	<u>(54,010)</u>
Change in Net Position	1,098,653	1,864,136	(57,497)	2,905,292
Net Position at Beginning of Year	<u>17,692,622</u>	<u>38,292,000</u>	<u>274,883</u>	<u>56,259,505</u>
Net Position at End of Year	<u>\$ 18,791,275</u>	<u>\$ 40,156,136</u>	<u>\$ 217,386</u>	<u>\$ 59,164,797</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, 2017

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 4,252,015	\$ 5,645,497	\$ 386,225	\$ 10,283,737
Payments to vendors and employees	<u>(2,257,353)</u>	<u>(2,086,113)</u>	<u>(340,050)</u>	<u>(4,683,516)</u>
Net Cash Provided By Operating Activities	1,994,662	3,559,384	46,175	5,600,221
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfers out	(27,005)	(27,005)	-	(54,010)
Interfund borrowing	<u>(1,857,085)</u>	<u>(3,431,491)</u>	<u>101,393</u>	<u>(5,187,183)</u>
Net Cash Provided By (Used For) Noncapital Financing Activities	(1,884,090)	(3,458,496)	101,393	(5,241,193)
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(3,410,946)	(6,160,675)	(159,811)	(9,731,432)
Principal payments on bonds	(1,765,486)	(2,017,155)	(100,405)	(3,883,046)
Bonds issued in current period	6,443,350	7,414,450	129,674	13,987,474
Bond premium proceeds, net	256,792	358,451	6,431	621,674
Interest expense	(531,313)	(509,890)	(33,457)	(1,074,660)
Intergovernmental revenue	<u>(1,105,469)</u>	<u>811,431</u>	<u>10,000</u>	<u>(284,038)</u>
Net Cash (Used For) Capital and Related Financing Activities	(113,072)	(103,388)	(147,568)	(364,028)
<u>Cash Flows From Investing Activities:</u>				
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>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ 541,225	\$ 1,686,341	\$ (34,040)	\$ 2,193,526
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,379,417	1,454,428	68,003	2,901,848
Changes in assets, liabilities, and deferred outflows/inflows:				
User fees	(59,232)	61,748	(400)	2,116
Other assets	157,567	22,951	-	180,518
Deferred outflows - related to pensions	(343,258)	(360,122)	-	(703,380)
Deferred outflows - other	(16,569)	5,703	-	(10,866)
Accounts payable	20,116	98,400	-	118,516
Accrued liabilities	(39,248)	253,031	511	214,294
Deferred inflows - related to pensions	(45,983)	(42,207)	-	(88,190)
Deferred inflows - other	27,339	(7,290)	-	20,049
Compensated absences	4,228	6,209	3,687	14,124
OPEB liability	19,939	28,075	8,414	56,428
Net pension liability	<u>349,121</u>	<u>352,117</u>	<u>-</u>	<u>701,238</u>
Net Cash Provided By Operating Activities	<u>\$ 1,994,662</u>	<u>\$ 3,559,384</u>	<u>\$ 46,175</u>	<u>\$ 5,600,221</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, 2017

	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 113,618	\$ 549,127
Investments	2,694,090	-
Due from other funds	<u>-</u>	<u>129,604</u>
Total Assets	2,807,708	678,731
<u>LIABILITIES AND NET POSITION</u>		
Other liabilities	<u>-</u>	<u>678,731</u>
Total Liabilities	<u>-</u>	<u>678,731</u>
<u>NET POSITION</u>		
Total net position held in trust	\$ <u><u>2,807,708</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, 2017

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions	\$ 362,592
Increase in fair value of investments	<u>203,717</u>
Total additions	566,309
Deductions:	
Other	<u>69,307</u>
Total deductions	<u>69,307</u>
Net increase	497,002
Net position:	
Beginning of year	<u>2,310,706</u>
End of year	<u><u>\$ 2,807,708</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 2017, 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*. 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.

The proprietary fund financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

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 fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The City reports the following fiduciary funds:

- 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 fair value, except certificates of deposit which are reported at cost.

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 acquisition 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/deferred outflows 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.

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>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 88,970,561	\$ 85,167,938
Other financing sources/uses (GAAP basis)	<u>865,867</u>	<u>3,720,826</u>
Subtotal (GAAP Basis)	89,836,428	88,888,764
Adjust tax revenue to accrual basis	(245,427)	-
Recognize use of fund balance as funding source	3,749,484	-
To eliminate capital reserve activity	-	796,326
To eliminate conservation activity	(97,195)	(100,901)
To eliminate economic development activity	(13,193)	(64,536)
To record other GAAP timing differences	<u>(247,119)</u>	<u>(247,119)</u>
Budgetary basis	<u>\$ 92,982,978</u>	<u>\$ 89,272,534</u>

D. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2017.

It is anticipated that the deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

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 \$2,000,961 are held by the investment's counterparty, not in the name of the City.

As of June 30, 2017, \$869,459 of the City's bank balance of \$46,124,306 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	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End								
				Aaa	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Certificates of deposits	\$ 7,074,474	N/A	\$ 7,074,474	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	602,192		-	30,257	91,854	30,174	145,860	60,559	120,627	62,184	31,023	29,654
Corporate equities	1,313,781	N/A	1,313,781	-	-	-	-	-	-	-	-	-
Mutual funds	769,913	N/A	769,913	-	-	-	-	-	-	-	-	-
Federal agency securities	62,466		-	62,466	-	-	-	-	-	-	-	-
Municipal obligations	41,097		-	-	15,951	25,146	-	-	-	-	-	-
Total investments	<u>\$ 9,863,923</u>		<u>\$ 9,158,168</u>	<u>\$ 92,723</u>	<u>\$ 107,805</u>	<u>\$ 55,320</u>	<u>\$ 145,860</u>	<u>\$ 60,559</u>	<u>\$ 120,627</u>	<u>\$ 62,184</u>	<u>\$ 31,023</u>	<u>\$ 29,654</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>Amount</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
Certificates of deposit	\$ 7,074,474	\$ 4,011,885	\$ 3,062,589	\$ -
Corporate bonds	602,192	60,011	209,992	332,189
Federal agency securities	62,466	-	62,466	-
Municipal obligations	41,097	41,097	-	-
Total	\$ 7,780,229	\$ 4,112,993	\$ 3,335,047	\$ 332,189

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, 2017:

		Fair Value Measurements Using:
		Quoted prices in active markets for identical assets (Level 1)
<u>Description</u>		
Investments by fair value level:		
Debt securities		
U.S. Treasury securities	\$ 103,563	\$ 103,563
Corporate bonds	602,192	602,192
Equity securities	<u>2,083,694</u>	2,083,694
Total	\$ 2,789,449	

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. Afterward, 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, 2017 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 42,520	\$ -	\$ 42,520
Tax liens	3,616,451	(1,257,086)	2,359,365
Other	63,808	(6,381)	57,427
Total property taxes	<u>\$ 3,722,779</u>	<u>\$ (1,263,467)</u>	<u>\$ 2,459,312</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. User Fee Receivables

Receivables for user charges and betterments for business type activities at June 30, 2017 consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Water	\$ 1,066,475	\$ (106,648)	\$ 959,827
Sewer	1,167,807	(116,781)	1,051,026
Other	400	-	400
Total	<u>\$ 2,234,682</u>	<u>\$ (223,429)</u>	<u>\$ 2,011,253</u>

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2017.

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, 2017 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 1,039,097	\$ 9,555,069
Capital Projects Fund	519,034	-
Non Major Funds:		
Special Revenue Funds		
Community Center	302,097	-
Granite State Business Park TIF - II	75,919	-
Safran TIF	158,982	-
Granite Ridge TIF - II	34,140	-
Granite Ridge TIF - II	299,542	-
CDBG	-	12,167
Police Grants	-	8,378
Other Grants	-	26,388
School Grants	-	579,285
School Lunch	-	86,372
Subtotal Nonmajor Funds	870,680	712,590
Business Type Activities:		
Enterprise Funds		
Water	2,381,413	-
Sewer	5,507,937	-
Non Major Enterprise - Arena	-	180,106
Agency Funds	129,604	-
Total	<u>\$ 10,447,765</u>	<u>\$ 10,447,765</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 following is an analysis of interfund transfers:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 618,748	\$ 3,720,826
Capital Projects Fund	3,712,570	441,882
Nonmajor Funds:		
Special Revenue Funds:		
Planning	-	19,059
Granite State Business Park TIF - II	-	100,500
Granite Ridge TIF - I	84,043	-
Granite Ridge TIF - II	-	85,543
Other Grants	6,459	-
Subtotal Nonmajor Funds	90,502	205,102
<u>Business-Type Funds:</u>		
Enterprise Funds		
Water Fund	-	27,005
Sewer Fund	-	27,005
Subtotal Business-Type Funds:	-	54,010
Total	\$ <u>4,421,820</u>	\$ <u>4,421,820</u>

The City's other routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

9. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 6,062,868	\$ 404,891	\$ -	\$ 6,467,759
Buildings and improvements	67,051,692	13,537,885	-	80,589,577
Vehicles and equipment	21,945,577	2,549,418	(234,208)	24,260,787
Infrastructure	<u>155,228,861</u>	<u>6,187,904</u>	<u>-</u>	<u>161,416,765</u>
Total capital assets, being depreciated	250,288,998	22,680,098	(234,208)	272,734,888
Less accumulated depreciation for:				
Land improvements	(3,900,109)	(242,556)	-	(4,142,665)
Buildings and improvements	(27,710,079)	(1,491,311)	-	(29,201,390)
Vehicles and equipment	(14,925,349)	(1,488,468)	228,772	(16,185,045)
Infrastructure	<u>(113,120,964)</u>	<u>(3,972,199)</u>	<u>-</u>	<u>(117,093,163)</u>
Total accumulated depreciation	<u>(159,656,501)</u>	<u>(7,194,534)</u>	<u>228,772</u>	<u>(166,622,263)</u>
Total capital assets, being depreciated, net	90,632,497	15,485,564	(5,436)	106,112,625
Capital assets, not being depreciated:				
Land	8,466,751	1,616,791	-	10,083,542
Easement	1,422,250	-	-	1,422,250
Construction in progress	<u>21,633,711</u>	<u>12,795,189</u>	<u>(24,811,733)</u>	<u>9,617,167</u>
Total capital assets, not being depreciated	<u>31,522,712</u>	<u>14,411,980</u>	<u>(24,811,733)</u>	<u>21,122,959</u>
Governmental activities capital assets, net	<u>\$ 122,155,209</u>	<u>\$ 29,897,544</u>	<u>\$ (24,817,169)</u>	<u>\$ 127,235,584</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 977,059	\$ 25,000	\$ -	\$ 1,002,059
Buildings and improvements	57,960,852	1,161,933	-	59,122,785
Vehicles and equipment	7,495,568	323,663	-	7,819,231
Infrastructure	<u>57,586,879</u>	<u>2,929,252</u>	<u>-</u>	<u>60,516,131</u>
Total capital assets, being depreciated	124,020,358	4,439,848	-	128,460,206
Less accumulated depreciation for:				
Land improvements	(144,945)	(40,438)	-	(185,383)
Buildings and improvements	(21,682,726)	(1,317,699)	-	(23,000,425)
Vehicles and equipment	(4,940,783)	(370,889)	-	(5,311,672)
Infrastructure	<u>(17,530,955)</u>	<u>(1,172,822)</u>	<u>-</u>	<u>(18,703,777)</u>
Total accumulated depreciation	<u>(44,299,409)</u>	<u>(2,901,848)</u>	<u>-</u>	<u>(47,201,257)</u>
Total capital assets, being depreciated, net	79,720,949	1,538,000	-	81,258,949
Capital assets, not being depreciated:				
Land	3,577,190	-	-	3,577,190
Construction in progress	<u>3,857,524</u>	<u>8,662,911</u>	<u>(3,371,323)</u>	<u>9,149,112</u>
Total capital assets, not being depreciated	<u>7,434,714</u>	<u>8,662,911</u>	<u>(3,371,323)</u>	<u>12,726,302</u>
Business-type activities capital assets, net	<u>\$ 87,155,663</u>	<u>\$ 10,200,911</u>	<u>\$ (3,371,323)</u>	<u>\$ 93,985,251</u>

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

Governmental Activities:	
General government	\$ 351,689
Public safety	602,931
Highway and streets	4,326,868
Education	1,827,665
Culture and recreation	58,934
Community services	21,549
Economic development	<u>4,898</u>
Total depreciation expense - governmental activities	<u>\$ 7,194,534</u>
Business-Type Activities:	
Water	\$ 1,379,417
Sewer	1,454,428
Arena	<u>68,003</u>
Total depreciation expense - business-type activities	<u>\$ 2,901,848</u>

10. **Deferred Outflows of Resources**

Deferred outflows of resources represent the consumption of net position by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions, are more fully discussed in Note 17.

Other deferred outflows of resources consist of losses of debt refunding of \$538,666 and \$200,448 for governmental and business-type activities respectively, as of June 30, 2017.

11. **Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities represent 2017 expenditures paid in 2018.

12. **Capital Lease Obligations**

The City is the lessee of certain equipment under capital leases expiring in various years through 2022. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2017:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2018	\$ 195,222
2019	53,281
2020	53,281
2021	53,281
2022	<u>53,281</u>
Total minimum lease payments	408,346
Less amounts representing interest	<u>22,991</u>
Present Value of Minimum Lease Payments	<u>\$ 385,355</u>

13. 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 have been issued for both governmental and business-type activities. 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 6/30/17</u>
1997 Series Bond Issue	08/15/17	4.70-5.30%	\$ 65,000
1998 Series A Bond Issue	08/15/18	4.91%	152,520
2002 Series Bond Issue	08/15/22	4.25-4.70%	1,873,000
2005 QZAB	12/29/20	0.00%	368,776
2007 Bond Issue - Refinancing - 13 year	08/15/20	5.50-5.80%	1,343,597
2008 Series Bond Issue - 20 year	02/15/28	3.00-5.00%	478,747
2008 Series Bond Issue - 10 year	02/15/18	5.25-6.50%	30,521
2008 Series Bond Issue - 10 year	02/15/18	3.00-5.00%	260,992
2008 Series A NHMBB - 20 year	08/15/28	4.00-5.25%	415,000
2010 Series Bond Issue - 10 year	01/15/20	2.00-3.25%	597,300
2010 Series Bond Issue - 20 year	01/15/30	2.00-4.00%	1,885,692
2012 Series B Bond Issue - 20 year - TIF	03/15/32	1.00-3.25%	3,734,059
2012 Series A Bond Issue - 20 year	03/15/32	2.00-3.00%	1,630,000
2012 Series A Bond Issue - 10 year	03/15/22	2.00-3.00%	70,000
2013 Series A - Refunding 2004 bonds	07/15/24	2.00-3.00%	2,960,252
2014 State Revolving Loan - Washington St Phase 4	06/01/33	3.39%	300,119
2015 Series A Bond Issue - 20 year	03/01/35	2.00-3.25%	3,693,028
2015 Series A Bond Issue - 5 year	03/01/20	2.00-3.00%	384,924
2015 Series A Bond Issue - 10 year	03/01/25	2.00-3.00%	4,206,518
2012 Series B Bond Issue - 20 year - Repurposed	03/15/32	2.00-3.25%	99,188
2015 Series C Bond Issue - 20 year	10/15/35	2.50-5.00%	10,840,000
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%	68,961
2015 Refunding - Series 2005 - 10 year	01/15/26	2.00-2.25%	1,674,562
2016 Refunding - Series 2008 - 10 year	02/15/28	1.94%	5,167,929
2017 Series A Bond Issue - 5 year	06/30/22	5.00%	487,848
2017 Series A Bond Issue - 10 year	06/30/27	5.00%	675,563
2017 Series A Bond Issue - 20 year	06/30/37	3.00-5.00%	8,492,827
2017 Series B Bond Issue - 10 year	06/30/27	2.50-3.00%	<u>1,164,744</u>
Total Governmental Activities:			<u>\$ 56,816,667</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/17</u>
1998 Series A Bond Issue	08/15/18	3.90-4.75%	\$ 107,480
2002 Series Bond Issue	08/15/22	4.25-4.70%	633,000
2005 State Revolving Loan - Chestnut Hill	08/01/25	3.49%	395,860
2007 State Revolving Loan - Homemakers	07/01/27	2.14%	215,062
2007 State Revolving Loan - Ground Water Supply	09/01/26	3.35%	251,014
2007 Refinancing Bonds - 13 year	08/15/20	5.50-5.80%	296,402
2008 Series Bond Issue - 20 year	02/15/28	3.00-5.00%	276,253
2008 Series Bond Issue - 10 year	02/15/18	5.25-6.50%	104,479
2008 Series Bond Issue - 10 year	02/15/18	3.00-5.00%	94,008
2009 State Revolving Loan - East Rochester I&I	12/01/27	3.69%	1,018,814
2009 State Revolving Loan - South Main/Solar Bee Pilot	08/01/28	3.49%	801,072
2010 State Revolving Loan - South Main Street	02/01/29	2.95%	385,112
2010 Series Bond Issue - 10 year	01/15/20	2.00-3.25%	446,096
2010 Series Bond Issue - 20 year	01/15/30	2.00-4.00%	2,170,915
2011 Round Pond Land Purchase	04/06/20	0.00%	112,500
2010 State Revolving Loan - Washington Street	12/01/30	2.86%	1,560,162
2012 Series A Bond Issue - 20 year	03/15/32	2.00-3.00%	750,000
2013 State Revolving Loan - Cocheco Well	09/01/31	3.10%	1,411,647
2013 State Revolving Loan - Headworks	02/01/32	2.72%	1,048,762
2013 State Revolving Loan - Washington St Pump Station	07/01/31	3.10%	484,761
2013 Series B Bond Issue - Refunding 2004 bonds	08/01/20	2.00-4.00%	3,625,000
2013 Series A Bond Issue - Refunding 2004 bonds	07/15/24	2.00-3.00%	864,742
2014 State Revolving Loan - Washington & Pine St	12/01/32	2.72%	168,496
2014 State Revolving Loan - Washington St Phase 4	06/01/33	3.39%	381,195
2015 Series A Bond Issue - 20 year	03/01/35	2.00-3.25%	3,093,102
2015 Series A Bond Issue - 5 year	03/01/20	2.00-3.00%	733,868
2015 Series A Bond Issue - 20 year	03/01/35	2.00-3.25%	390,076
2015 Series A Bond Issue - 10 year	03/01/25	2.00-3.00%	2,843,482
2012 Series B Bond Issue - 20 year - repurposed	03/15/32	2.00-3.25%	89,269
2012 Series B Bond Issue - 20 year - repurposed	03/15/32	2.00-3.25%	307,484
2015 Refunding Series 2005 - 10year	01/15/26	2.00-2.25%	96,476
2016 Refunding Series 2008 - 10 year	02/15/28	1.94%	2,982,072
2016 State Revolving Loan - New Rte 125 Pump Station	06/01/35	2.55%	319,463
2017 State Revolving Loan - Drinking Water SRF	12/01/35	2.00%	1,815,627
2017 Series A Bond Issue - 5 year	06/30/22	5.00%	1,472,153
2017 Series A Bond Issue - 10 year	06/30/27	5.00%	49,437
2017 Series A Bond Issue - 20 year	06/30/37	3.00-5.00%	9,752,164
2017 Series B Bond Issue - 10 year	06/30/27	2.50-3.00%	465,257
Total Business-Type Activities:			<u>\$ 42,012,762</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 5,363,098	\$ 1,729,029	\$ 7,092,127
2019	5,085,619	1,605,073	6,690,692
2020	5,000,372	1,440,452	6,440,824
2021	4,788,021	1,278,497	6,066,518
2022	4,359,637	1,130,986	5,490,623
2023 - 2027	17,897,516	3,647,144	21,544,660
2028 - 2032	9,181,534	1,543,644	10,725,178
Thereafter	<u>5,140,870</u>	<u>396,093</u>	<u>5,536,963</u>
Total	\$ <u>56,816,667</u>	\$ <u>12,770,918</u>	\$ <u>69,587,585</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, 2017.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 4,355,859	\$ 1,280,731	\$ 5,636,590
2019	4,195,360	1,201,917	5,397,277
2020	4,137,725	1,071,783	5,209,508
2021	3,844,787	929,789	4,774,576
2022	2,878,232	813,861	3,692,093
2023 - 2027	11,671,881	2,752,220	14,424,101
2028 - 2032	7,333,957	1,135,408	8,469,365
Thereafter	<u>3,594,961</u>	<u>306,372</u>	<u>3,901,333</u>
Total	\$ <u>42,012,762</u>	\$ <u>9,492,081</u>	\$ <u>51,504,843</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Total Balance 7/1/16	Additions	Reductions	Total Balance 6/30/17	Less Current Portion	Equals Long-Term Portion 6/30/17
<u>Governmental Activities</u>						
Bonds payable	\$ 50,341,971	\$ 10,820,982	\$ (4,346,286)	\$ 56,816,667	\$ (5,363,099)	\$ 51,453,568
Net pension liability	62,171,150	22,677,676	-	84,848,826	-	84,848,826
Net OPEB liability	5,431,371	627,493	-	6,058,864	-	6,058,864
Other:						
Unamortized premium	1,370,538	607,945	(113,428)	1,865,055	(144,863)	1,720,192
Compensated absences	2,325,893	-	(75,529)	2,250,364	(225,036)	2,025,328
Capital leases	272,865	247,119	(134,629)	385,355	(187,730)	197,625
Subtotal - other	3,969,296	855,064	(323,586)	4,500,774	(557,629)	3,943,145
Totals	\$ 121,913,788	\$ 34,981,215	\$ (4,669,872)	\$ 152,225,131	\$ (5,920,728)	\$ 146,304,403
<u>Business-Type Activities</u>						
Bonds payable	\$ 31,908,334	\$ 13,987,474	\$ (3,883,046)	\$ 42,012,762	\$ (4,355,859)	\$ 37,656,903
Net pension liability	2,032,168	701,238	-	2,733,406	-	2,733,406
Net OPEB liability	584,950	56,428	-	641,378	-	641,378
Other:						
Unamortized premium	405,016	722,860	(101,186)	1,026,690	(171,245)	855,445
Compensated absences	134,386	14,124	-	148,510	(14,851)	133,659
SRF loan proceeds ¹	2,248,454	-	(2,248,454)	-	-	-
Subtotal - other	2,787,856	736,984	(2,349,640)	1,175,200	(186,096)	989,104
Totals	\$ 37,313,308	\$ 15,482,124	\$ (6,232,686)	\$ 46,562,746	\$ (4,541,955)	\$ 42,020,791

¹ 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. During 2017, the supplemental agreement was executed between the State and the City containing the final project cost and the repayment schedule, and is now reported as bonds payable.

14. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position 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 City reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 17. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

15. 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, 2017:

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.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing special article appropriations approved at City Council Meeting, capital reserve funds, and various special revenue 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, 2017:

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Prepaid expenditures	\$ 24,446	\$ -	\$ -	\$ 24,446
Nonexpendable permanent funds	<u>-</u>	<u>-</u>	<u>50,451</u>	<u>50,451</u>
Total Nonexpendable	24,446	-	50,451	74,897
Restricted				
Community development	13,193	-	-	13,193
Conservation	102,118	-	-	102,118
Special revenue funds	-	-	905,228	905,228
Expendable permanent funds	<u>-</u>	<u>-</u>	<u>47,458</u>	<u>47,458</u>
Total Restricted	115,311	-	952,686	1,067,997
Committed				
Capital reserve funds	<u>796,326</u>	<u>-</u>	<u>-</u>	<u>796,326</u>
Total Committed	796,326	-	-	796,326
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	16,559,106	-	-	16,559,106
Capital projects fund - deficit	<u>-</u>	<u>(580,449)</u>	<u>-</u>	<u>(580,449)</u>
Total Unassigned	<u>16,559,106</u>	<u>(580,449)</u>	<u>-</u>	<u>15,978,657</u>
Total Fund Balance	<u>\$ 17,515,189</u>	<u>\$ (580,449)</u>	<u>\$ 1,003,137</u>	<u>\$ 17,937,877</u>

16. 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	\$ 16,559,106
Reserve for prepaid expenditures	(25,715)
Tax deeded property	<u>262,902</u>
Tax Rate Setting balance	<u>\$ 16,796,293</u>

17. 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 $\frac{1}{60}$ or 1.667% of average final compensation (AFC), multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at $\frac{1}{66}$ 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 10.86% to 25.32% of covered compensation. The City's and School's contributions to NHRS for the year ended June 30, 2017 were \$2,206,491 and \$3,896,305, 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, 2017, the City and School reported a liability of \$33,233,958 and \$54,348,274, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. 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 employ-

ers, actuarially determined. At June 30, 2017, the City's and School's proportions were .62498069 and 1.02204606 percent, respectively.

For the year ended June 30, 2017, the City and School recognized pension expense of \$3,790,918 and \$5,883,038, respectively. In addition, the City and School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 243,390	\$ 1,105,947
Changes of assumptions	10,778,587	-
Net difference between projected and actual earnings on pension plan investments	5,479,593	-
Changes in proportion and differences between contributions and proportionate share of contributions	2,058,040	1,868,346
Contributions subsequent to the measurement date	6,102,796	-
Total	\$ <u>24,662,406</u>	\$ <u>2,974,293</u>

\$2,206,491 and \$3,896,305 reported as deferred outflows of resources for City and School respectively, related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 3,034,579
2019	3,034,579
2020	5,011,947
2021	4,285,172
2022	<u>219,040</u>
Total	\$ <u>15,585,317</u>

F. Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent per year
Salary increases	5.6 percent average, including inflation
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using scale MP-2015, based on the last experience study.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the most recent actuarial experience study.

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:

Asset Class	Target Allocation Percentage	Weighted Average Long-Term Expected Real Rate of Return
Large Cap Equities	22.50 %	4.25%
Small/Mid Cap Equities	<u>7.50</u>	4.50%
Total domestic equities	30.00	
Int'l Equities (unhedged)	13.00	4.75%
Emerging Int'l Equities	<u>7.00</u>	6.25%
Total international equities	20.00	
Core Bonds	5.00	0.64%
Short Duration	2.00	-0.25%
Global Multi-Sector Fixed Income	11.00	1.71%
Absolute Return Fixed Income	<u>7.00</u>	1.08%
Total fixed income	25.00	
Private equity	5.00	6.25%
Private debt	5.00	4.75%
Opportunistic	5.00	3.68%
Real estate	<u>10.00</u>	3.25%
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 7.25%. 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 7.25 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 (6.25%) or one percentage-point higher (8.25%) than the current rate:

<u>1% Decrease</u> <u>(6.25%)</u>	<u>Current</u> <u>Discount</u> <u>Rate (7.25%)</u>	<u>1% Increase</u> <u>(8.25%)</u>
\$ 112,537,183	\$ 87,582,232	\$ 66,886,028

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.

18. Other Post-Employment Benefits – OPEB – (GASB 45)

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 subsidize the older retirees. As of June 30, 2017, there were 51 retiree subscribers, including eligible spouses and dependents, and 680 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 2017 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, 2017, 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, 2016.

Annual Required Contribution (ARC)	\$ 1,058,530
Interest on net OPEB obligation	270,734
Adjustment to ARC	<u>(256,435)</u>
Annual OPEB cost	1,072,829
Contributions made	<u>(388,908)</u>
Increase in net OPEB obligation	683,921
Net OPEB obligation - beginning of year	<u>6,016,321</u>
Net OPEB obligation - end of year	<u><u>\$ 6,700,242</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>
2017	\$ 1,058,530	15.8%	\$ 6,700,242
2016	\$ 1,159,050	19.3%	\$ 6,016,321
2015	\$ 1,181,419	33.9%	\$ 5,281,305

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 10,694,245
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 10,694,245</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>0%</u></u>
Covered payroll (active plan members)	<u><u>\$ 42,256,611</u></u>
UAAL as a percentage of covered payroll	<u><u>25.3%</u></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, 2016 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 9.0% 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%.

19. 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.

20. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, replacing requirements of Statements No. 45 and 57, effective for the City beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB.

CITY OF ROCHESTER, NEW HAMPSHIRE
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)
JUNE 30, 2017
(Unaudited)

New Hampshire Retirement System						
<u>Fiscal Year</u>	<u>Measurement Date</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, 2017	June 30, 2016	1.64702675%	\$ 87,582,232	\$ 42,596,488	205.61%	58.30%
June 30, 2016	June 30, 2015	1.62067092%	\$ 64,203,318	\$ 41,436,575	154.94%	65.47%
June 30, 2015	June 30, 2014	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 (GASB 68)

**JUNE 30, 2017
(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, 2017	\$ 6,102,796	\$ 6,102,796	\$ -	\$ 44,449,577	13.73%
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.

CITY OF ROCHESTER, NEW HAMPSHIRE
SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)

June 30, 2017
(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]
07/01/16	\$ -	\$ 10,694,245	\$ 10,694,245	0.0%	\$ 42,256,611	25.3%
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%

See Independent Auditors' Report.