

**TOWN OF LONDONDERRY, NEW HAMPSHIRE**

**Annual Financial Statements**

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

**Town of Londonderry, New Hampshire**

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## INDEPENDENT AUDITORS' REPORT

To the Town Council  
Town of Londonderry, New Hampshire

Additional Offices:  
Andover, MA  
Greenfield, MA  
Manchester, NH  
Ellsworth, ME

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Londonderry, New Hampshire, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

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

The Town'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. 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, each major fund, and the aggregate remaining fund information of the Town of Londonderry, New Hampshire as of June 30, 2016, and the respective changes in financial position 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, the Schedule of OPEB Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Pension Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying supplementary information appearing on pages 50 through 52 are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records

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

*Melanson Heath*

October 28, 2016

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

As management of the Town of Londonderry, New Hampshire, we offer readers this narrative overview and analysis of the financial activities of the Town of Londonderry for the fiscal year ended June 30, 2016.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town of Londonderry's basic financial statements. The basic financial statements comprise 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 the Town's finances in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Town's assets and liabilities, with the difference between the two 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 Town'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).

The government-wide financial statements summarize functions that are principally supported by taxes and intergovernmental revenues. The governmental activities include general government, public safety, highways and streets, sanitation, health and welfare, culture and recreation, conservation, and economic development. The government-wide financial statements can be found on pages 12-13 of this report.

**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. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Town's funds can be divided into two categories: governmental 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 the Town'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.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**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 Town's own programs.

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$48,676,278 (i.e., net position), a change of \$1,486,542 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$20,246,461, a change of \$2,549,226 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$6,094,042, a change of \$(700,466) in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$12,178,000, a change of \$(532,000) in comparison to the prior year.

### C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>NET POSITION</u>	
	<u>Governmental</u>	
	<u>Activities</u>	
	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 63,421	\$ 59,026
Capital assets	78,241	78,198
Deferred outflows	<u>2,538</u>	<u>2,442</u>
Total assets and deferred outflows	144,200	139,666
Current liabilities	6,098	31,462
Noncurrent liabilities	48,303	48,133
Deferred inflows	<u>41,123</u>	<u>12,881</u>
Total liabilities and deferred inflows	95,524	92,476
Net position:		
Net investment in capital assets	64,063	64,482
Restricted	7,048	971
Unrestricted	<u>(22,435)</u>	<u>(18,263)</u>
Total net position	<u>\$ 48,676</u>	<u>\$ 47,190</u>

	<u>CHANGES IN NET POSITION</u>	
	<u>Governmental</u>	
	<u>Activities</u>	
	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Charges for services	\$ 7,888	\$ 6,544
Operating grants and contributions	782	561
General revenues:		
Property taxes	17,290	17,841
Interest, penalties and other taxes	1,077	1,516
Motor vehicle registrations	7,415	7,076
Grants and contributions not restricted to specific programs	1,223	1,278
Investment income	118	-
Other	<u>333</u>	<u>1,374</u>
Total revenues	36,126	36,190

(continued)

(continued)

<u>CHANGES IN NET POSITION</u>		
	<u>Governmental</u>	
	<u>Activities</u>	
	<u>2016</u>	<u>2015</u>
Expenses:		
General government	3,870	4,329
Public safety	17,647	17,562
Highways and streets	5,358	4,981
Sanitation	4,843	5,137
Health and welfare	107	114
Culture and recreation	1,783	1,841
Conservation	108	21
Economic development	389	441
Interest	535	508
	<u>34,640</u>	<u>34,934</u>
Total expenses		
Change in net position	1,486	1,256
Net position - beginning of year, restated	<u>47,190</u>	<u>45,934</u>
Net position - end of year	<u>\$ 48,676</u>	<u>\$ 47,190</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 \$48,676,278, a change of \$1,486,542 from the prior year.

The largest portion of net position, \$64,063,242, reflects the Town's investment in capital assets (e.g., land, construction in progress, buildings and improvements, machinery, vehicles and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's 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, \$7,048,040, 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 \$(22,435,004) primarily resulting from the Town's net pension liability.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$1,486,542. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 1,042,542
Sewer fund revenues over expenditures and transfers out	713,330
Nonmajor governmental funds change in fund balance	793,354
Depreciation expense in excess of bond principal payments	(1,031,714)
Other GAAP accruals	<u>(30,970)</u>
Total	<u>\$ 1,486,542</u>

**D. FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS**

As noted earlier, the Town uses fund accounting 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 the Town’s 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 \$20,246,461, a change of \$2,549,226 in comparison to the prior year. Key elements of this change are as follows:

General fund operations, as discussed further below	\$ 1,042,542
Sewer fund revenues over expenditures and transfers out	713,330
Nonmajor fund revenues and other financing sources over expenditures and transfers out	<u>793,354</u>
Total	<u>\$ 2,549,226</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 \$6,094,042, while total fund balance was \$11,245,991. 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. The results of this comparison are summarized in the table below.

<u>General Fund</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 6,094,042	\$ 6,794,508	\$ (700,466)	19.1%
Total fund balance <sup>1</sup>	\$ 11,245,991	\$ 10,203,449	\$ 1,042,542	35.3%

<sup>1</sup>Includes capital reserve and expendable trust funds.

The total fund balance of the general fund changed by \$1,042,542 during the current fiscal year. The primary underlying reasons for this change in fund balance are as follows:

Revenues in excess of budget	\$ 1,428,965 *
Expenditures less than budget	799,961 *
Use of fund balance as a funding source	(843,000)
Excess of prior year encumbrances over current year	(101,245)
Capital reserve fund operations	(212,029)
Other	<u>(30,110)</u>
Total	<u>\$ 1,042,542</u>

\* See Section E below for additional information regarding these changes

The Town's capital reserve and expendable trust funds are included in total general fund balance as follows:

	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>
Capital reserve funds	\$ 814,727	\$ 1,127,348	\$ (312,621)
Expendable trust funds	<u>794,115</u>	<u>693,523</u>	<u>100,592</u>
Total	<u>\$ 1,608,842</u>	<u>\$ 1,820,871</u>	<u>\$ (212,029)</u>

## **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

There difference between the Town's total Original Budget and the total Final Budget results from revised revenue estimates on the Town's MS-434.

Significant budget to actual variances for general fund revenues and expenditures include the following:

- Licenses and permits revenue was over budget by \$1,227,886. This was primarily due to increased motor vehicle registration fees.
- Income from departments revenue was over budget by \$351,078, which was a combination of increases in ambulance revenues and cable franchise fees.
- General government expenditures were under budget by \$247,009 due to decreased fuel prices and staffing changes in the Finance Department.
- Police department expenditures were under budget by \$95,051, while fire department expenditures were under budget by \$196,407 due to staffing changes and increased management of overtime hours.

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

**Capital assets.** Total investment in capital assets for governmental activities at year end amounted to \$76,876,826 (net of accumulated depreciation), a change of \$(1,321,292) from the prior year. This investment in capital assets includes land, construction in progress, buildings and improvements, machinery, vehicles and equipment, intangibles, improvements other than buildings, and infrastructure.

Additional information on the Town's capital assets can be found in Note 8 on page 33 of this report.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$12,178,000, all of which was backed by the full faith and credit of the government. In addition, the Town has outstanding capital leases totaling \$3,050,005, which include both a purchase option and a non-appropriation clause.

**Credit rating.** As of June 30, 2016, the Town's credit rating on outstanding bonded debt was Aa2, which was unchanged from the prior year.

Additional information on the Town's long-term debt can be found in Note 14 and Note 15 on pages 34-37 of this report.

## **G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The general outlook for the Town of Londonderry is positive. The 2.9% unemployment rate for the Londonderry area (Nashua, NH-MA NECTA [NH Portion]), according to the New Hampshire Employment Security Bureau, is well under the overall U.S. unemployment rate of 4.9% (June, 2016). The Town continues to strongly invest in its public works infrastructure, such as the construction of Pettengill Road by Manchester-Boston Regional Airport, and is poised to benefit from continued improvements in the overall economy, especially as the 600-acre, \$1 billion dollar Woodmont Commons development begins the first phase of its development in the spring of 2017.

For the upcoming fiscal year, the taxpayers approved at the Annual Budgetary Town Meeting a combined \$31,963,028 for its operating and capital improvement budgets. During the year the Town will be investing \$650,000 in its Roadway Maintenance Trust Fund, which was created in 2012 to minimize the amount of debt issued for road construction projects. Londonderry also continues to see a boom in new industrial, commercial, and residential growth adding nearly \$126,000,000 in new valuation in the past year alone – most of which came from industrial growth in the Airport District of Town.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Londonderry'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:

Director of Finance & Administration  
Town of Londonderry  
268B Mammoth Road  
Londonderry, New Hampshire 03053

TOWN OF LONDONDERRY, NEW HAMPSHIRE  
STATEMENT OF NET POSITION  
JUNE 30, 2016

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 44,949,769
Investments	7,653,486
Receivables, net of allowance for uncollectibles:	
Property taxes	9,667,154
User fees	634,448
Departmental and other	466,652
Prepaid items	<u>20,640</u>
Total current assets	63,392,149
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	28,518
Capital assets:	
Land and construction in progress	19,594,948
Other capital assets, net of accumulated depreciation	57,281,878
Deposit on capital asset	<u>1,363,995</u>
Total non-current assets	78,269,339
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>2,538,386</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	144,199,874
<b>LIABILITIES</b>	
Current:	
Accounts payable	2,412,178
Accrued liabilities	417,674
Tax refunds payable	406,631
Other liabilities	363,987
Current portion of long-term liabilities:	
Capital leases	611,758
Bonds payable	1,720,000
Compensated absences	146,469
Landfill post-closure	<u>18,742</u>
Total current liabilities	6,097,439
Noncurrent:	
Capital leases, net of current portion	2,438,247
Bonds payable, net of current portion	10,458,000
Compensated absences, net of current portion	1,658,176
Landfill post-closure, net of current portion	149,938
Accrued other post-employment benefits	4,679,349
Net pension liability	<u>28,919,581</u>
Total non-current liabilities	48,303,291
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>41,122,866</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	95,523,596
<b>NET POSITION</b>	
Net investment in capital assets	64,063,242
Restricted externally or constitutionally for:	
Permanent funds:	
Nonexpendable	867,079
Expendable	177,605
Restricted by enabling legislation	6,003,356
Unrestricted	<u>(22,435,004)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 48,676,278</u>

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

TOWN OF LONDONDERRY, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenues and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in Net Position</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Governmental</u>
					<u>Activities</u>
<b>Governmental Activities:</b>					
General government	\$ 3,870,328	\$ 95,780	\$ -	\$ -	\$ (3,774,548)
Public safety	17,647,092	3,938,771	-	-	(13,708,321)
Highways and streets	5,358,248	-	582,787	-	(4,775,461)
Sanitation	4,842,305	3,324,139	118,465	-	(1,399,701)
Health and welfare	106,877	-	-	-	(106,877)
Culture and recreation	1,783,039	529,210	80,563	-	(1,173,266)
Conservation	108,038	-	-	-	(108,038)
Economic development	388,765	-	-	-	(388,765)
Interest	535,407	-	-	-	(535,407)
Total Governmental Activities	\$ <u>34,640,099</u>	\$ <u>7,887,900</u>	\$ <u>781,815</u>	\$ <u>-</u>	(25,970,384)
			<b>General Revenues:</b>		
			Property taxes	17,289,929	
			Interest, penalties and other taxes	1,077,406	
			Motor vehicle registrations	7,415,143	
			Grants and contributions not restricted to specific programs	1,222,744	
			Investment income	118,652	
			Other	333,052	
			Total general revenues	<u>27,456,926</u>	
			Change in net position	1,486,542	
			<b>Net Position:</b>		
			Beginning of year, as restated	<u>47,189,736</u>	
			End of year	\$ <u>48,676,278</u>	

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

TOWN OF LONDONDERRY, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	<u>Sewer Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 42,700,670	\$ -	\$ 2,249,100	\$ 44,949,770
Investments	6,681,418	-	972,068	7,653,486
Receivables, net of allowance for uncollectibles:			-	
Property taxes	9,655,619	-	11,535	9,667,154
User fees	553,914	80,534	-	634,448
Other	13,972	-	452,680	466,652
Due from other funds	608,291	6,342,195	217,981	7,168,467
Prepaid items	20,640	-	-	20,640
Property held for resale	28,518	-	-	28,518
<b>TOTAL ASSETS</b>	<b>\$ <u>60,263,042</u></b>	<b>\$ <u>6,422,729</u></b>	<b>\$ <u>3,903,364</u></b>	<b>\$ <u>70,589,135</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,510,546	\$ 456,877	\$ 444,755	\$ 2,412,178
Accrued liabilities	402,357	-	-	402,357
Tax refunds payable	406,631	-	-	406,631
Due to other funds	6,744,476	-	423,991	7,168,467
Other liabilities	363,987	-	-	363,987
<b>TOTAL LIABILITIES</b>	<b>9,427,997</b>	<b>456,877</b>	<b>868,746</b>	<b>10,753,620</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>39,589,054</b>	<b>-</b>	<b>-</b>	<b>39,589,054</b>
<b>FUND BALANCES</b>				
Nonspendable	49,158	-	867,079	916,237
Restricted	130,000	5,965,852	285,388	6,381,240
Committed	3,980,842	-	1,987,398	5,968,240
Assigned	991,949	-	-	991,949
Unassigned	6,094,042	-	(105,247)	5,988,795
<b>TOTAL FUND BALANCES</b>	<b><u>11,245,991</u></b>	<b><u>5,965,852</u></b>	<b><u>3,034,618</u></b>	<b><u>20,246,461</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ <u>60,263,042</u></b>	<b>\$ <u>6,422,729</u></b>	<b>\$ <u>3,903,364</u></b>	<b>\$ <u>70,589,135</u></b>

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

TOWN OF LONDONDERRY, NEW HAMPSHIRE

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

JUNE 30, 2016

<b>Total governmental fund balances</b>	\$ 20,246,461																						
<ul style="list-style-type: none"> <li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">76,876,826</td> </tr> <tr> <td style="padding-left: 20px;">Deposit on capital assets</td> <td style="text-align: right;">1,363,995</td> </tr> </table> </li> <li>• Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">714,551</td> </tr> </table> </li> <li>• Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">2,538,386</td> </tr> </table> </li> <li>• Deferred inflows of resources related to pensions resulting from projected vs. actual earnings and changes in proportion will be recognized as a reduction of the net pension liability in the years ending June 30, 2017 through June 30, 2021. <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">(2,248,363)</td> </tr> </table> </li> <li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">(161,787)</td> </tr> </table> </li> <li>• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%; padding-left: 20px;">Bonds payable</td> <td style="text-align: right;">(12,178,000)</td> </tr> <tr> <td style="padding-left: 20px;">Net pension liability</td> <td style="text-align: right;">(28,919,581)</td> </tr> <tr> <td style="padding-left: 20px;">Net OPEB obligation</td> <td style="text-align: right;">(4,679,349)</td> </tr> <tr> <td style="padding-left: 20px;">Capital leases</td> <td style="text-align: right;">(3,050,005)</td> </tr> <tr> <td style="padding-left: 20px;">Other (compensated absences, landfill closure liability, etc)</td> <td style="text-align: right;"><u>(1,826,856)</u></td> </tr> </table> </li> </ul>		76,876,826	Deposit on capital assets	1,363,995		714,551		2,538,386		(2,248,363)		(161,787)	Bonds payable	(12,178,000)	Net pension liability	(28,919,581)	Net OPEB obligation	(4,679,349)	Capital leases	(3,050,005)	Other (compensated absences, landfill closure liability, etc)	<u>(1,826,856)</u>	
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Capital leases	(3,050,005)																						
Other (compensated absences, landfill closure liability, etc)	<u>(1,826,856)</u>																						
<b>Net position of governmental activities</b>	<b><u><u>\$ 48,676,278</u></u></b>																						

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

TOWN OF LONDONDERRY, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Sewer Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 17,392,349	\$ -	\$ -	\$ 17,392,349
Interest, penalties and other taxes	919,464	-	234,831	1,154,295
Licenses and permits	7,971,886	-	-	7,971,886
Intergovernmental	1,847,100	-	-	1,847,100
Charges for services	1,444,708	3,200,537	2,685,913	7,331,158
Investment income	32,080	-	86,576	118,656
Other revenues	<u>357,113</u>	<u>-</u>	<u>56,502</u>	<u>413,615</u>
Total Revenues	29,964,700	3,200,537	3,063,822	36,229,059
<b>Expenditures:</b>				
Current:				
General government	3,248,838	-	23,281	3,272,119
Public safety	17,607,123	-	2,585,934	20,193,057
Highways and streets	4,104,596	-	-	4,104,596
Sanitation	1,733,456	2,167,207	446,782	4,347,445
Health and welfare	106,517	-	360	106,877
Culture and recreation	1,758,077	-	61,812	1,819,889
Conservation	3,118	-	104,920	108,038
Economic development	386,352	-	-	386,352
Capital outlay	170,500	-	107,353	277,853
Debt service	<u>2,783,317</u>	<u>-</u>	<u>-</u>	<u>2,783,317</u>
Total Expenditures	<u>31,901,894</u>	<u>2,167,207</u>	<u>3,330,442</u>	<u>37,399,543</u>
Excess (deficiency) of revenues over (under) expenditures	(1,937,194)	1,033,330	(266,620)	(1,170,484)
<b>Other Financing Sources (Uses):</b>				
Bond issuance	-	-	1,158,000	1,158,000
Refunding bonds issued	2,256,000	-	-	2,256,000
Capital lease issuance	2,516,510	-	-	2,516,510
Payment to refunded bond escrow agent	(2,210,800)	-	-	(2,210,800)
Transfers in	423,176	-	5,150	428,326
Transfers out	<u>(5,150)</u>	<u>(320,000)</u>	<u>(103,176)</u>	<u>(428,326)</u>
Total Other Financing Sources (Uses)	<u>2,979,736</u>	<u>(320,000)</u>	<u>1,059,974</u>	<u>3,719,710</u>
Net changes in fund balances	1,042,542	713,330	793,354	2,549,226
Fund Balances, beginning of year, as restated	<u>10,203,449</u>	<u>5,252,522</u>	<u>2,241,264</u>	<u>17,697,235</u>
Fund Balances, end of year	<u>\$ 11,245,991</u>	<u>\$ 5,965,852</u>	<u>\$ 3,034,618</u>	<u>\$ 20,246,461</u>

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

TOWN OF LONDONDERRY, NEW HAMPSHIRE

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

FOR THE YEAR ENDED JUNE 30, 2016

<b>Net changes in fund balances - total governmental funds</b>	\$ 2,549,226																										
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">1,531,422</td> </tr> <tr> <td>Deposit on capital assets</td> <td style="text-align: right;">1,363,995</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(2,852,714)</td> </tr> </table> </li> <li>• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (e.g., property taxes) differ between the two statements. This amount represents the net change in deferred revenue. <table style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(102,420)</td> </tr> </table> </li> <li>• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="margin-left: 40px;"> <tr> <td>Issuance of capital leases</td> <td style="text-align: right;">(2,516,510)</td> </tr> <tr> <td>Issuance of bonds</td> <td style="text-align: right;">(1,158,000)</td> </tr> <tr> <td>Net effect of refunding</td> <td style="text-align: right;">(131,000)</td> </tr> <tr> <td>Bond and lease principal payments</td> <td style="text-align: right;">2,293,956</td> </tr> </table> </li> <li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">39,755</td> </tr> </table> </li> <li>• Some expenses reported in the Statement of Activities do not require the use of current financial resources; therefore, they are not reported as expenditures in the governmental funds. <table style="margin-left: 40px;"> <tr> <td>Compensated absences</td> <td style="text-align: right;">100,449</td> </tr> <tr> <td>Landfill post-closure liability</td> <td style="text-align: right;">30,116</td> </tr> <tr> <td>Net pension liability, and related deferred inflows/outflows</td> <td style="text-align: right;">868,539</td> </tr> <tr> <td>OPEB liability</td> <td style="text-align: right;"><u>(530,272)</u></td> </tr> </table> </li> </ul>	Capital outlay purchases	1,531,422	Deposit on capital assets	1,363,995	Depreciation	(2,852,714)		(102,420)	Issuance of capital leases	(2,516,510)	Issuance of bonds	(1,158,000)	Net effect of refunding	(131,000)	Bond and lease principal payments	2,293,956		39,755	Compensated absences	100,449	Landfill post-closure liability	30,116	Net pension liability, and related deferred inflows/outflows	868,539	OPEB liability	<u>(530,272)</u>	
Capital outlay purchases	1,531,422																										
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OPEB liability	<u>(530,272)</u>																										
<b>Change in net position of governmental activities</b>	<b>\$ <u>1,486,542</u></b>																										

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

TOWN OF LONDONDERRY, NEW HAMPSHIRE

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 17,450,585	\$ 17,367,912	\$ 17,167,976	\$ (199,936)
Interest, penalties, and other taxes	960,055	977,755	988,465	10,710
Licenses and permits	6,520,000	6,744,000	7,971,886	1,227,886
Intergovernmental	1,698,372	1,787,989	1,845,073	57,084
Charges for services	1,011,000	1,147,000	1,498,078	351,078
Investment income	10,000	20,000	31,944	11,944
Other revenues	350,000	351,500	321,699	(29,801)
Total Revenues	28,000,012	28,396,156	29,825,121	1,428,965
<b>Expenditures:</b>				
General government	3,331,483	3,329,483	3,082,474	247,009
Public safety	15,258,367	15,628,511	15,334,342	294,169
Highways and streets	3,219,514	3,219,514	3,238,486	(18,972)
Sanitation	1,942,691	1,942,691	1,794,929	147,762
Health and welfare	175,132	175,132	106,517	68,615
Culture and recreation	1,748,373	1,748,373	1,720,548	27,825
Conservation	3,300	3,300	3,118	182
Economic development	384,334	384,334	386,696	(2,362)
Capital outlay	770,000	770,000	768,924	1,076
Debt service	2,514,318	2,514,318	2,479,661	34,657
Total Expenditures	29,347,512	29,715,656	28,915,695	799,961
Excess (Deficiency) of revenue over expenditures	(1,347,500)	(1,319,500)	909,426	2,228,926
<b>Other Financing Sources (Uses):</b>				
Transfers in	799,500	799,500	805,528	6,028
Transfers out	(295,000)	(323,000)	(323,000)	-
Use of fund balance	843,000	843,000	-	(843,000)
Total Other Financing Sources (Uses)	1,347,500	1,319,500	482,528	(836,972)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,391,954	\$ 1,391,954

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

TOWN OF LONDONDERRY, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	<u>Agency Funds</u>
<b><u>ASSETS</u></b>	
Cash and short term investments	\$ <u>1,278,056</u>
Total Assets	\$ <u><u>1,278,056</u></u>
 <b><u>LIABILITIES</u></b>	
Escrow deposits	\$ 1,054,622
School funds	<u>223,434</u>
Total Liabilities	\$ <u><u>1,278,056</u></u>

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

# TOWN OF LONDONDERRY, NEW HAMPSHIRE

## Notes to Financial Statements June 30, 2016

### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Londonderry (the Town) 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 Town is a municipal corporation governed by a 5-member elected Town Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2016, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

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

##### Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements; however, interfund services provided and used was not eliminated by the process of consolidation. Governmental activities are supported primarily by taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are 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 and fiduciary funds, even though the latter are excluded from the government-

wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Sewer user fees are recognized as revenue when billed. Other charges, including ambulance, police detail and police airport services, are recognized as revenue after services have been performed and billed. 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 Town 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 Town 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 *sewer fund* is used to account for all of the activity associated with the management and operation of the Town's sewer systems, which are funded by sewer use charges and sewer connection fees.

Additionally, the Town reports the following fund type:

- The *agency fund* is used to account for resources legally held in trust for impact fees, construction escrows and school district capital reserves. Agency funds, unlike other funds, have no measurement focus, reporting only assets and liabilities.

#### 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.

#### 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 consist of certificates of deposit, marketable securities, bonds, mutual funds, and short-term money market investments. Investments are carried at market value, with the exception of 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, and equipment are reported in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$1,000 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.

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.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	30 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

*H. Compensated Absences*

It is the Town'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 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, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

The governmental fund financial statements recognize the proceeds of debt as other financing sources in the current period, while debt issuance costs are reported as expenditures.

*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 – In general, fund balance represents the difference between current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classifications are as follows:

- 1) *Nonspendable funds* are either unspendable in the current form (i.e., prepaid items) or can never be spent (i.e., cemetery perpetual care principal).
- 2) *Restricted funds* are restricted to specific purposes by external constraints imposed by laws, creditors, or grantors, or others outside of the Town's organization.
- 3) *Committed funds* can only be used for specific purposes pursuant to binding constraints imposed by formal action of the Town's highest decision-making authority, which is the official ballot results from the annual Budgetary Town Meeting. These commitments can be established, modified, or rescinded only by majority ballot vote.
- 4) *Assigned funds* are intended to be used for specific purposes as established by the approved Town Council budget.
- 5) *Unassigned funds* represent the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are available for any purpose. Temporary fund balance deficits are reported as negative amounts in the unassigned classification in other governmental funds. Positive unassigned amounts are reported only in the general fund.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town 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 Town 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

At the annual town meeting, the Town Council presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenue sources. The original budget can be amended during the fiscal year by special town meetings as required by changing conditions.

The Town's legal level of budgetary control is the total appropriation by fund, as voted by Town Meeting.

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 fiscal year.

B. Budgetary Basis

The general fund and sewer fund final appropriation appearing on the "Budget and Actual" pages of the fund financial statements represents the final amended budget after all transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund and the sewer 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 and the sewer 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)	\$ 29,964,700	\$ 31,901,894
Other financing sources/uses (GAAP basis)	<u>5,195,686</u>	<u>2,215,950</u>
Subtotal (GAAP Basis)	35,160,386	34,117,844
Subtract beginning of year appropriation carryforwards from expenditures	-	(518,672)
Add end-of-year appropriation carryforwards to expenditures	-	589,764
Reverse effect of combining general fund and capital reserve funds (GASB 54)	364,394	152,366
To remove gross up for issuance of capital leases	(2,516,510)	(2,516,510)
To remove gross up for refunding	(2,256,000)	(2,256,000)
Reverse nonbudgeted activity	<u>(121,621)</u>	<u>(330,097)</u>
Budgetary basis	<u>\$ 30,630,649</u>	<u>\$ 29,238,695</u>

**D. Deficit Fund Equity**

The following funds had deficits as of June 30, 2016:

Nonmajor Governmental Funds:	
Exit 4A	\$ (105,247)

The deficit in the Exit 4A project will be eliminated through future bond proceeds, which have been authorized but not yet issued.

**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 Town's deposits may not be returned to it. New Hampshire RSA 41:29 stipulates that Town funds be deposited "in participation units in the public deposit investment pool established pursuant to RSA 383:22

or in federally insured banks chartered under the laws of New Hampshire or the federal government with a branch within the state, except that funds may be deposited in federally insured banks outside the state if such banks pledge and deliver to a third party custodial bank or the federal reserve bank collateral security of the following types:

- (a) United States governmental obligations
- (b) United States government agency obligations; or
- (c) Obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.”

In addition, RSA 41:29 allows excess funds “which are not immediately needed for the purpose of expenditure” to be invested in the “public deposit investment pool established pursuant to RSA 383:22, or in deposits, including money market accounts, or certificates of deposit, or repurchase agreements, and all other types on interest bearing accounts, of federally insured banks chartered under the laws of New Hampshire or the federal government with a branch within the state, or in obligations fully guaranteed as to principal and interest by the United States government.”

The Town’s deposit policy for custodial credit risk requires a comprehensive review of the credit worthiness and capital ratios of the institutions. The Town’s deposit policy limits the investment of Town assets to U.S. Treasury Securities maturing in less than one year, fully insured or collateralized certificates of deposits at commercial banks of the State of New Hampshire, New England Region and the State of New York, repurchase agreements fully collateralized by the U.S. Treasury Securities or agencies, and any state approved pool or instrument. The Town’s policy further stipulates that all Town assets be secured through third-party custody and safekeeping procedures.

As of June 30, 2016, none of the Town’s bank balance of \$47,080,600 was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank’s trust department not in the Town’s name.

The Town also maintains various trust funds that are managed by the Trustees of Trust Funds (Trustees). As of June 30, 2016, none of the Trustees’ short-term cash and investment balances of \$72,730 was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank’s trust department not in the Town’s name.

#### 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 investor 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. Neither the Town’s nor the Trustees’ policies specifically address investment credit risk.

Presented below (in thousands) is the actual rating as of year-end for each of the Town’s and Trustees’ investments (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Legal Rating</u>	<u>Rating</u>			
			<u>AAA</u>	<u>A</u>	<u>A1</u>	<u>BBB</u>
Federal agencies	\$ 150		\$ 150	\$ -	\$ -	\$ -
Corporate bonds	<u>223</u>		<u>-</u>	<u>84</u>	<u>53</u>	<u>86</u>
Subtotal	373		<u>\$ 150</u>	<u>\$ 84</u>	<u>\$ 53</u>	<u>\$ 86</u>
Certificates of deposit	6,693	N/A				
Equities	<u>587</u>	N/A				
Total investments	<u>\$ 7,653</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. Both the Town’s and Trustees’ investment policies follow the guidelines of New Hampshire RSA 31.

##### C. Concentration of Credit Risk

Neither the Town nor the Trustees place limits on the amount that may be invested in any one issuer.

Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows (in thousands):

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
Certificates of deposit:		
Citizens Bank	\$ 1,404	18.3%
Century Bank	2,020	26.4%
TD Bank	2,006	26.2%
Optima Bank	<u>1,002</u>	13.1%
Total	<u>\$ 6,432</u>	

*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. Neither the Town nor the Trustees have a formal investment policy that limits investment maturities as a means of managing their exposure to fair value losses arising from changing interest rates.

Information about the sensitivity of the fair values of the Trustees' investments to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>1-5</u>	<u>6-10</u>
Debt-related Securities:			
Federal agency securities	\$ 150	\$ 150	\$ -
Corporate bonds	<u>223</u>	<u>56</u>	<u>167</u>
Total	<u>\$ 373</u>	<u>\$ 206</u>	<u>\$ 167</u>

*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. Neither the Town nor the Trustees have policies for foreign currency risk.

*F. Fair Value*

The Town 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.

Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing issued to value securities based on the securities relationship to benchmark quoted prices.

The Town has the following fair value measurements as of June 30, 2016

<u>Description</u>	<u>Fair Value Measurements Using:</u>		
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:			
Debt securities			
Federal agency securities	\$ 150,166	\$ -	\$ 150,166
Corporate bonds	223,330	-	223,330
Equity securities	<u>587,229</u>	587,229	-
Total	\$ <u>960,725</u>		

## **5. Taxes Receivable**

The Town bills property taxes on a semi-annual basis, with property taxes due in July and December. Property tax revenues are recognized in the fiscal year for which taxes have been levied (budgeted) to the extent that they become available, i.e., due or receivable within the current fiscal 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 *taxes collected in advance* liability, as they are intended to finance the Town's subsequent year's operations.

Delinquent taxes are typically liened at the Registrar of Deeds on February 28 of the next year. If the liened property taxes (redemptions) are not paid within two years of the tax lien date, the property is conveyed to the Town by tax deed and could subsequently be sold at a public sale.

The Town annually budgets an amount (overlay) for residential and business property tax abatements and refunds. All abatements and refunds are charged to this overlay account and are classified as a contra-tax revenue in the general fund. The overlay account also includes probable abatements accrued to be paid.

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

Property Taxes:

2016	\$ 8,782	
2014	4	
2013	<u>59</u>	8,845

Tax Liens:

2015	369	
2014	192	
Prior	<u>214</u>	775
Elderly Deferrals		31
Land Use Change Tax		11
Excavation Tax		<u>5</u>
Total		<u>\$ 9,667</u>

Taxes Collected for Others

The Town collects property taxes for the Londonderry School District and for Rockingham County. Payments to the school district are normally made throughout the year and payment to the County is normally made in December. However, ultimate responsibility for the collection of these taxes rests with the Town.

**6. User Fees Receivable and Allowance for Doubtful Accounts**

User fees receivable include amounts due from customers for ambulance and sewer services. Ambulance receivables are recorded in the general fund and are reported net of an allowance for doubtful accounts; the allowance amount is estimated using receivables that are more than 120 days past due. Sewer receivables are reported in special revenue funds; delinquent sewer receivables are liened in a manner similar to property taxes, as described in Note 5. User fees receivable and related allowance for doubtful accounts at June 30, 2016 consist of the following:

	<u>Ambulance</u>	<u>Sewer</u>	<u>Total</u>
Gross receivable	\$ 753,914	\$ 80,534	\$ 834,448
Less: allowance for doubtful accounts	<u>(200,000)</u>	<u>-</u>	<u>(200,000)</u>
Total	<u>\$ 553,914</u>	<u>\$ 80,534</u>	<u>\$ 634,448</u>

**7. Interfund Fund Receivables/Payables and Interfund Transfers**

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

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 608,291	\$ 6,744,476
Sewer Fund	6,342,195	-
Nonmajor Governmental Funds:		
Special Revenue Funds:		
Police outside detail	89,638	-
Police airport division	-	318,744
Conservation commission	57,428	-
Reclamation fund	213	-
Other special funds	70,702	-
Capital Project Funds:		
Exit 4A	-	105,247
Subtotal Nonmajor Funds	<u>217,981</u>	<u>423,991</u>
Total	<u>\$ 7,168,467</u>	<u>\$ 7,168,467</u>

Following is an analysis of interfund transfers during fiscal year 2016. The primary purpose of these transfers is to ensure budgetary compliance. Most transfers are budgeted in the general fund and transferred to/from other funds. The Town annually budgets transfers from the sewer fund to the general fund to cover their share of general fund costs.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 423,176	\$ 5,150
Sewer Fund	-	320,000
Nonmajor Governmental Funds:		
Special Revenue Funds:		
Police airport division	-	96,924
Other special funds	5,150	-
Capital Project Funds:		
Capital equipment	-	6,252
Subtotal Nonmajor Funds	<u>5,150</u>	<u>103,176</u>
Total	<u>\$ 428,326</u>	<u>\$ 428,326</u>

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and building improvements	\$ 14,611	\$ -	\$ -	\$ 14,611
Machinery, vehicles, and equipment	12,467	1,531	-	13,998
Intangibles	656	-	-	656
Infrastructure	84,722	-	-	84,722
Improvements other than buildings	632	-	-	632
	<u>113,088</u>	<u>1,531</u>	<u>-</u>	<u>114,619</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Buildings and building improvements	(4,002)	(363)	-	(4,365)
Machinery, vehicles, and equipment	(10,301)	(748)	-	(11,049)
Intangibles	(589)	(9)	-	(598)
Infrastructure	(39,224)	(1,669)	-	(40,893)
Improvements other than buildings	(369)	(63)	-	(432)
	<u>(54,485)</u>	<u>(2,852)</u>	<u>-</u>	<u>(57,337)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	58,603	(1,321)	-	57,282
Capital assets, not being depreciated:				
Land and land improvements	12,561	-	-	12,561
Construction in progress	7,034	-	-	7,034
	<u>19,595</u>	<u>-</u>	<u>-</u>	<u>19,595</u>
Total capital assets, not being depreciated				
Governmental activities capital assets, net	<u>\$ 78,198</u>	<u>\$ (1,321)</u>	<u>\$ -</u>	<u>\$ 76,877</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 343
Public safety	608
Highways and streets	1,264
Sanitation	529
Culture and recreation	97
Economic development	11
	<u>11</u>
Total depreciation expense - governmental activities	<u>\$ 2,852</u>

## 9. Deferred Outflows of Resources

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

As of June 30, 2016, deferred outflow of resources represents contributions made to the New Hampshire Retirement System subsequent to the measurement date of the net pension liability.

**10. Accounts Payable**

Accounts payable represent 2016 expenditures paid after June 30, 2016.

**11. Accrued Liabilities**

Accrued liabilities on the governmental fund balance sheet primarily consist of accrued payroll and accrued benefit leave payable, while accrued liabilities on the Statement of Net Position include these same liabilities as well as accrued interest on long-term debt at June 30, 2016.

**12. Tax Refunds Payable**

This balance consists of an estimate of refunds due to property tax payers for potential future abatements. These cases are currently in litigation or pending with the state Board of Tax and Land Appeals.

**13. Other Liabilities**

This balance consists of miscellaneous Town obligations, including payroll withholdings and unclaimed property resulting from uncashed payroll and accounts payable checks that have been voided and segregated pending future resolution.

**14. Capital Leases**

The Town is the lessee of certain equipment under a capital lease agreement issued in the current fiscal year. Future minimum lease payments under this capital lease consisted of the following at June 30, 2016:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2017	\$ 642,480
2018	640,354
2019	495,758
2020	247,387
2021	247,387
2022-2026	<u>986,836</u>
Total minimum lease payments	3,260,202
Less amounts representing interest	<u>(210,197)</u>
Present Value of Minimum Lease Payments	<u>\$ 3,050,005</u>

The Town has designated various capital reserve funds as the primary source to repay the obligations incurred under this capital lease agreement.

## 15. Long-Term Debt

### A. Long-Term Debt Supporting Governmental Activities

General obligation bonds, issued by the Town of Londonderry for various municipal projects, are approved by voters and repaid with property taxes recorded in the general fund.

### B. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/16</u>
Roadway improvements	01/15/18	3.07%	\$ 240,000
Roadway improvements	02/01/18	1.24%	200,000
Roadway improvements	11/15/18	3.58%	450,000
Roadway improvements	07/15/19	2.43%	400,000
Roadway improvements	12/01/20	2.38%	500,000
Roadway improvements	07/15/21	2.48%	600,000
Mammoth Road sewer	11/01/21	4.39%	720,000
Multi-purpose bond	07/01/23	3.83%	5,440,000
Open space & fire station	08/15/26	4.02%	225,000
Refunding bonds	08/15/26	2.00%	2,245,000
Exit 4A	03/01/26	3.49%	1,158,000
Total Governmental Activities:			<u>\$ 12,178,000</u>

### C. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,720,000	\$ 383,033	\$ 2,103,033
2018	1,951,600	328,275	2,279,875
2019	1,610,800	267,240	1,878,040
2020	1,460,800	213,430	1,674,230
2021	1,355,800	163,789	1,519,589
2022 - 2026	3,884,000	261,891	4,145,891
2027	195,000	1,950	196,950
Total	<u>\$ 12,178,000</u>	<u>\$ 1,619,608</u>	<u>\$ 13,797,608</u>

*D. Bond Authorizations/Unissued*

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2016 are as follows:

<u>Purpose</u>	<u>Amount</u>
Mammoth Road Sewer	\$ 225,000
Auburn Road Water Line	49,600
Exit 4A Construction	3,342,000
Auburn Road Landfill Site	<u>900,000</u>
Total Unissued Bond Authorizations	\$ <u>4,516,600</u>

*E. Changes in General Long-Term Liabilities*

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

	Total			Total		Equals
	Balance			Balance	Less	Long-Term
	<u>7/1/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/16</u>	<u>Current</u>	<u>Portion</u>
					<u>Portion</u>	<u>6/30/16</u>
<u>Governmental Activities</u>						
Capital leases	\$ 1,006	\$ 2,517	\$ (473)	\$ 3,050	\$ (612)	\$ 2,438
Bonds payable	12,710	1,289	(1,821)	12,178	(1,720)	10,458
Other:						
Compensated absences	1,759	81	(36)	1,804	(146)	1,658
Landfill post-closure	199	-	(30)	169	(19)	150
Net OPEB obligation	4,149	996	(466)	4,679	-	4,679
Net pension liability	<u>28,310</u>	<u>609</u>	<u>-</u>	<u>28,919</u>	<u>-</u>	<u>28,919</u>
Totals	\$ <u>48,133</u>	\$ <u>5,492</u>	\$ <u>(2,826)</u>	\$ <u>50,799</u>	\$ <u>(2,497)</u>	\$ <u>48,302</u>

The general fund has been designated as the primary source to repay all governmental-type long-term debt with the exception of capital leases, which will be repaid from various capital reserve funds.

*F. Advance Refunding*

On November 5, 2015, the Town issued general obligation bonds in the aggregate amount of \$2,256,000 with an interest rate of 2.00% throughout the life of the bonds. The bonds were issued at a true interest cost (TIC) of 2.00%.

The refunding bonds were issued to advance refund \$2,125,000 of its August 15, 2006 Bonds (the "2006 Bonds"), comprised of serial bonds with interest rates ranging from 4.00% to 4.15%. The 2006 Bonds mature on August 15, 2017 through August 15, 2026 and were called on August 15, 2016.

After paying pro-rata issuance costs and underwriter's discount of approximately \$45,200, the net bond proceeds associated with advance refunding the 2006 bonds were \$2,210,800 and were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the 2006 bonds were called on August 15, 2016. As a result of the 2006 advance refunding, the City reduced its total debt service cash flow requirements by \$149,717, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$135,977.

## 16. Landfill Post-closure Costs

The Town's landfill has been closed and capped. However, State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at its capped landfill site for a period of thirty years after closure. These *post-closure care* costs are reported as a long-term liability in the government-wide financial statements, and a portion of the liability is expensed each year. The amount of the post-closure care liability and the portion of costs expensed each year are based on estimates provided by management. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

## 17. Deferred Inflows of Resources

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

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

	<u>Entity-wide Basis</u>	<u>Fund Basis</u>
	Governmental Activities	Governmental Funds General Fund
Unavailable revenues	\$ 8,923,839	\$ 9,638,390
Taxes collected in advance	29,950,664	29,950,664
Pension related:		
Differences between expected and actual experience	634,611	-
Net difference between projected and actual investment earnings	772,910	-
Changes in proportion and differences between pension contributions and proportionate share of contributions	<u>840,842</u>	<u>-</u>
Total	\$ <u>41,122,866</u>	\$ <u>39,589,054</u>

## 18. **Restricted Net Position**

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

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

## 19. **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 following types of fund balances are reported at June 30, 2016:

**Nonspendable** - This fund balance classification includes general fund offset for prepaid expenses and property held for resale and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

**Restricted** - This fund balance classification includes general fund balance restricted for TIF, sewer fund, other special revenue funds, and the income portion of permanent trust funds.

**Committed** - This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Budgetary Town Meeting, and capital reserve and expendable trust funds set aside by Budgetary Town Meeting vote for future capital acquisitions and improvements.

**Assigned** - This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

**Unassigned** – This fund balance classification includes the residual classification for the general fund and temporary fund balance deficits in other governmental funds.

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

	General Fund	Sewer Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>				
Prepaid and held for resale	\$ 49,158	\$ -	\$ -	\$ 49,158
Nonexpendable permanent funds	-	-	867,079	867,079
<b>Total Nonspendable</b>	<b>49,158</b>	<b>-</b>	<b>867,079</b>	<b>916,237</b>
<b>Restricted</b>				
Airport District TIF traffic signalization	130,000	-	-	130,000
Special revenue funds:				
Sewer fund	-	5,965,852	-	5,965,852
Leach Library	-	-	37,504	37,504
Other special funds	-	-	70,279	70,279
Expendable permanent funds	-	-	177,605	177,605
<b>Total Restricted</b>	<b>130,000</b>	<b>5,965,852</b>	<b>285,388</b>	<b>6,381,240</b>
<b>Committed</b>				
Subsequent year appropriations:				
Roadway maintenance trust	650,000	-	-	650,000
Senior center	350,000	-	-	350,000
Capital reserve funds	724,000	-	-	724,000
Expendable maintenance trust	210,000	-	-	210,000
Court resurfacing	38,000	-	-	38,000
Route 102 sewer expansion	350,000	-	-	350,000
Addiction and counseling program	50,000	-	-	50,000
Capital reserves:				
Fire department	220,830	-	-	220,830
Highway trucks	152,104	-	-	152,104
Cemetery land	27,376	-	-	27,376
Highway heavy equipment	226,204	-	-	226,204
Geographic information system	28,003	-	-	28,003
Pillsbury cemetery	124,159	-	-	124,159
Fire department equipment	82,344	-	-	82,344
Cable division equipment	139,944	-	-	139,944
ECO park	31,357	-	-	31,357
Master plan	624	-	-	624
Maintenance reserve	20,974	-	-	20,974
Roadway maintenance	554,923	-	-	554,923
Special revenue funds:				
Police outside detail	-	-	199,364	199,364
Police airport division	-	-	24,210	24,210
Conservation	-	-	1,617,679	1,617,679
Reclamation fund	-	-	146,145	146,145
<b>Total Committed</b>	<b>3,980,842</b>	<b>-</b>	<b>1,987,398</b>	<b>5,968,240</b>
<b>Assigned</b>				
Appeals	500,000	-	-	500,000
Budgetary encumbrances	491,949	-	-	491,949
<b>Total Assigned</b>	<b>991,949</b>	<b>-</b>	<b>-</b>	<b>991,949</b>
<b>Unassigned</b>	<b>6,094,042</b>	<b>-</b>	<b>(105,247)</b>	<b>5,988,795</b>
<b>Total Fund Balances</b>	<b>\$ 11,245,991</b>	<b>\$ 5,965,852</b>	<b>\$ 3,034,618</b>	<b>\$ 20,246,461</b>

**20. General Fund Unassigned Fund Balance**

The unassigned general fund balance reported on the governmental funds balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how undesignated fund balance is reported in accordance with the budgetary basis for reporting to 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 the GAAP basis and the budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 6,094,042
Deferred inflows of resources	714,551
Other GAAP adjustments	<u>(4,737)</u>
Tax Rate Setting Balance	<u>\$ 6,808,593</u>

**21. Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town’s management is of the opinion that the potential future settlement of such claims 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 Town expects such amounts, if any, to be immaterial.

Abatements – In addition to the Town’s estimated tax refunds payable, there are certain other cases pending before the BTLA and Superior Court in New Hampshire in regard to alleged discrepancies in property assessments. According to the Town’s counsel, the probable outcome of these cases at the present time is indeterminable.

**22. Post-Employment Healthcare and Life Insurance Benefits**

**Other Post-Employment Benefits**

GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment 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 them. 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*

In addition to providing the retirement system benefits described in Note 23, the Town indirectly provides post-employment healthcare for retired employees through an implicit rate covered by current year employees. Retirees of the Town that participate in this single employer plan, pay to participate in the Town's healthcare program. Since they are included in the same pool as current employees, the insurance rates are higher for current employees due to the age consideration. This increased rate is an implicit rate the Town covers for the retirees. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of July 1, 2013, the actuarial valuation date, approximately 26 retirees and 160 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

*B. Benefits Provided*

Retirees and their covered dependents are eligible to participate in the Town's medical, prescription drug, mental health/substance abuse programs. All active employees who retire from the Town 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 Town. The Town contributes its implicit rate subsidy of the health plan costs on a pay-as-you-go basis.

*D. Annual OPEB Costs and Net OPEB Obligation*

The Town's fiscal 2016 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2016, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2013.

Annual Required Contribution (ARC)	\$ 809,764
Interest on net OPEB obligation	186,708
Adjustment to ARC	<u>(176,847)</u>
Annual OPEB cost	819,625
Contributions made	<u>(289,353)</u>
Increase in net OPEB obligation	530,272
Net OPEB obligation - beginning of year	<u>4,149,077</u>
Net OPEB obligation - end of year	<u>\$ 4,679,349</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 819,625	35.3%	\$ 4,679,349
2015	\$ 818,305	32.1%	\$ 4,149,077
2014	\$ 816,936	29.5%	\$ 3,593,533

**E. Funded Status and Funding Progress**

The funded status of the plan as of July 1, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 7,781,390
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 7,781,390</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 10,556,099</u>
UAAL as a percentage of covered payroll	<u>73.7%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of OPEB Funding Progress, presented on page 50, 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 Town 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 Town 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, 2013 actuarial valuation, the Projected Unit Credit with linear proration to decrement cost method was used. The actuarial value of assets was \$0, as the Town 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 5.0% long-term rate for all healthcare benefits after eight years. The amortization costs for the initial UAAL is a level percentage of payroll over thirty years based on an open group, with an overall estimated annual inflation rate of 3.0% and total payroll growth estimated at 3.0% per year.

## **23. Retirement System**

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

### A. Plan Description

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

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to *Group I*. Police officers and firefighters belong to *Group II*. All assets are held in a single trust and are available to

each group. Additional information is disclosed in the NHRS annual report publicly available from the New Hampshire Retirement System located at 54 Regional Drive, Concord, New Hampshire 03301-8507.

*B. Benefits Provided*

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

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

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

*C. Contributions*

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 7% for employees and teachers 11.55% for police and 11.80% for fire. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and range from 11.17% to 29.16% of covered compensation. The Town's contribution to NHRS for the year ended June 30, 2016 was \$2,538,386, which was equal to its annual required contribution.

*D. Summary of Significant Accounting Policies*

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

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

At June 30, 2016, the Town reported a liability of \$28,919,581 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At the most recent measurement date of June 30, 2015, the Town's proportion was 0.75% percent, which was a decrease of 0.024% from its previous year proportion.

For the year ended June 30, 2016, the Town recognized pension expense of \$1,676,908. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 634,611
Net difference between projected and actual earnings on pension plan investments	-	772,910
Changes in proportion and differences between contributions and proportionate share of contributions	-	840,842
Contributions subsequent to the measurement date	<u>2,538,386</u>	<u>-</u>
Total	<u>\$ 2,538,386</u>	<u>\$ 2,248,363</u>

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

Year ended June 30:		
2017	\$	(748,432)
2018		(748,433)
2019		(748,433)
2020		128,731
2021		<u>(131,796)</u>
Total	\$	<u><u>(2,248,363)</u></u>

*F. Actuarial Assumptions*

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

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

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the most recent actuarial experience study.

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 Average Long-Term Expected Real Rate of Return
Large Cap Equities	22.50 %	3.25%
Small/Mid Cap Equities	7.50	3.25%
Total domestic equities	30.00	
Int'l Equities (unhedged)	13.00	4.25%
Emerging Int'l Equities	7.00	6.50%
Total international equities	20.00	
Core Bonds	4.50	-0.70%
Short Duration	2.50	-1.00%
Global Multi-Sector Fixed Income	11.00	0.28%
Unconstrained Fixed Income	7.00	0.16%
Total fixed income	25.00	
Private equity	5.00	5.50%
Private debt	5.00	4.50%
Real estate	10.00	3.50%
Opportunistic	5.00	2.75%
Total alternative investments	25.00	
Total	100.00 %	

**G. Discount Rate**

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

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

The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
June 30, 2016	\$ 38,068,870	\$ 28,919,581	\$ 21,119,759

*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.

**24. Risk Management**

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

**25. Beginning Fund Balance/Net Position Reclassification**

The Town’s major governmental funds for fiscal year 2016, as defined by GASB Statement 34, have changed from the previous fiscal year. In addition, the beginning net position was restated. Accordingly, the following reconciliation is provided:

Government-Wide Financial Statements:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
As previously reported	\$ 47,176,216	\$ 13,520
Restate amounts previously reported as private purpose trust	<u>13,520</u>	<u>(13,520)</u>
As restated	<u>\$ 47,189,736</u>	<u>\$ -</u>

Fund Basis Financial Statements:

	Sewer Fund	Nonmajor Governmental Funds
As previously reported	\$ -	\$ 7,480,266
Reclassify major fund	5,252,522	(5,252,522)
Restate amounts previously reported as private purpose trust	-	13,520
As restated	<u>\$ 5,252,522</u>	<u>\$ 2,241,264</u>

**26. 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 Town 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.

**TOWN OF LONDONERRY, NEW HAMPSHIRE  
SCHEDULE OF OPEB FUNDING PROGRESS  
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2016  
(Unaudited)**

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/08	\$ -	\$ 7,392,805	\$ 7,392,805	0.0%	\$ 11,346,987	65.2%
07/01/10	\$ -	\$ 8,173,280	\$ 8,173,280	0.0%	\$ 10,437,881	78.3%
07/01/13	\$ -	\$ 7,781,390	\$ 7,781,390	0.0%	\$ 10,556,099	73.7%

See Independent Auditors' Report.

TOWN OF LONDONDERRY, NEW HAMPSHIRE

SCHEDULE OF PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016  
(Unaudited)

New Hampshire Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	0.75%	\$28,919,581	\$ 13,298,078	217.47%	65.47%
June 30, 2015	0.73%	\$28,310,207	\$ 13,332,262	212.34%	66.32%

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

See Independent Auditors' Report.

**TOWN OF LONDONDERRY, NEW HAMPSHIRE**

**SCHEDULE OF PENSION CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016  
(Unaudited)**

New Hampshire Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$ 2,538,386	\$ 2,538,386	\$ -	\$ 13,298,078	19.09%
June 30, 2015	\$ 2,446,857	\$ 2,446,857	\$ -	\$ 13,332,262	18.35%

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

See Independent Auditors' Report.