

TOWN OF LONDONDERRY, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2017

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, 2017, 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, 2017, 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 and the Pension and OPEB schedules appearing on pages 47 to 49, respectively 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.

Melanson Heath

November 22, 2017

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, 2017.

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 assets, liabilities, and deferred outflows/inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *Statement of Activities* presents information showing how the 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.

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. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$42,793,899 (i.e., net position), a change of \$333,368 in comparison to the prior year, as restated.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$21,208,723, a change of \$655,847 in comparison to the prior year, as restated.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$8,356,736, a change of \$2,262,694 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>2017</u> | <u>2016</u> |
| Current and other assets | \$ 64,175 | \$ 63,421 |
| Capital assets | <u>77,119</u> | <u>78,241</u> |
| Total assets | 141,294 | 141,662 |
| Deferred outflows | <u>10,261</u> | <u>2,538</u> |
| Total assets and deferred outflows | <u>\$ 151,555</u> | <u>\$ 144,200</u> |
| Current liabilities | \$ 4,770 | \$ 5,791 |
| Noncurrent liabilities | <u>58,219</u> | <u>54,825</u> |
| Total liabilities | 62,989 | 60,616 |
| Deferred inflows | 45,772 | 41,123 |
| Net position: | | |
| Net investment in capital assets | 65,753 | 64,063 |
| Restricted | 7,098 | 7,048 |
| Unrestricted | <u>(30,057)</u> | <u>(28,650)</u> |
| Total net position | <u>42,794</u> | <u>42,461</u> |
| Total liabilities, deferred inflows and net position | <u>\$ 151,555</u> | <u>\$ 144,200</u> |

| | <u>CHANGES IN NET POSITION</u> | |
|--|--------------------------------|-------------|
| | <u>Governmental</u> | |
| | <u>Activities</u> | |
| | <u>2017</u> | <u>2016</u> |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 7,407 | \$ 7,888 |
| Operating grants and contributions | 857 | 782 |
| General revenues: | | |
| Property taxes | 17,862 | 17,290 |
| Interest, penalties and other taxes | 1,364 | 1,077 |
| Motor vehicle registrations | 8,004 | 7,415 |
| Grants and contributions not restricted to specific programs | 1,295 | 1,223 |
| Investment income | 171 | 118 |
| Other | <u>2</u> | <u>333</u> |
| Total revenues | 36,962 | 36,126 |

(continued)

(continued)

| <u>CHANGES IN NET POSITION</u> | | |
|--|------------------|------------------|
| Governmental | | |
| <u>Activities</u> | | |
| | <u>2017</u> | <u>2016</u> |
| Expenses: | | |
| General government | 3,651 | 3,870 |
| Public safety | 19,791 | 17,647 |
| Highways and streets | 6,109 | 5,358 |
| Sanitation | 4,162 | 4,843 |
| Health and welfare | 111 | 107 |
| Culture and recreation | 1,951 | 1,783 |
| Conservation | 18 | 108 |
| Economic development | 443 | 389 |
| Interest | 393 | 535 |
| Total expenses | <u>36,629</u> | <u>34,640</u> |
| Change in net position | 333 | 1,486 |
| Net position - beginning of year, restated | <u>42,461</u> | <u>40,975</u> |
| Net position - end of year | <u>\$ 42,794</u> | <u>\$ 42,461</u> |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

The largest portion of net position, \$65,752,641, 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, \$7,098,028, 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 \$(30,056,770) primarily resulting from the Town's unfunded net pension and net OPEB liabilities.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$333,368. Key elements of this change are as follows:

| | |
|--|-------------------|
| General fund operations, other than transfers | \$ 338,781 |
| Sewer fund revenues over expenditures | 191,098 |
| Nonmajor governmental funds revenues over expenditures | 125,968 |
| Depreciation expense in excess of debt principal payments | (635,436) |
| Increase in net pension and OPEB liabilities, and related deferrals | (1,254,766) |
| Capital additions funded by operating revenues and fund balance reserves | 1,679,399 |
| Other GAAP accruals | <u>(111,676)</u> |
| Total | <u>\$ 333,368</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 \$21,208,723, a change of \$655,847 in comparison to the prior year. Key elements of this change are as follows:

| | |
|--|-------------------|
| General fund operations, as discussed further below | \$ 685,772 |
| Sewer fund revenues over expenditures and transfers out | (41,119) |
| Nonmajor fund revenues and other financing sources over expenditures and transfers out | <u>11,194</u> |
| Total | <u>\$ 655,847</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 \$8,356,736, while total fund balance was \$12,238,178. The recommended level for the unassigned general fund balance per the Town's financial management policy is to retain not less than 5 percent and not more than 7 percent of the sum of gross municipal and net school district appropriations. At the end of June 30, 2017, the unassigned general fund balance is slightly over the recommended level, which can be utilized for emergency appropriations, capital projects or reserves, reduction of tax rate or other nonrecurring appropriation as deemed appropriate by the

Council. Refer to the table below for fund balance as a percentage of gross municipal and net school district appropriations.

| <u>General Fund</u> | <u>6/30/17</u> | <u>6/30/16</u> | <u>Change</u> | <u>% of Gross Appropriations</u> |
|---------------------------------|----------------|----------------|---------------|----------------------------------|
| Unassigned fund balance | \$ 8,356,736 | \$ 6,094,042 | \$ 2,262,694 | 7.8% |
| Total fund balance ¹ | \$ 12,238,178 | \$ 11,552,406 | \$ 685,772 | 11.4% |

¹Includes capital reserve and expendable trust funds.

The total fund balance of the general fund changed by \$685,772 during the current fiscal year. The primary underlying reasons for this change in fund balance are as follows:

| | |
|---|-------------------|
| Use of fund balance as a funding source | \$ (2,372,000) |
| Revenues in excess of budget | 1,474,554 * |
| Expenditures less than budget | 679,257 * |
| Excess of current year encumbrances over prior year | 432,371 |
| Transfers in and out in excess of budget | 264,421 |
| GAAP adjustments | 207,169 |
| Total | <u>\$ 685,772</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>6/30/17</u> | <u>6/30/16</u> | <u>Change</u> |
|------------------------|---------------------|---------------------|---------------------|
| Capital reserve funds | \$ 848,572 | \$ 814,727 | \$ 33,845 |
| Expendable trust funds | <u>502,725</u> | <u>794,115</u> | <u>(291,390)</u> |
| Total | <u>\$ 1,351,297</u> | <u>\$ 1,608,842</u> | <u>\$ (257,545)</u> |

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget result from supplemental appropriations for contract negotiations and revised revenue estimates on the Town's MS-434.

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

- Interest, penalties and other taxes revenue was over budget by \$412,751. This was primarily due to land use change tax revenue on the Woodmont project.
- Licenses and permits revenue was over budget by \$1,303,502. This was primarily due to increased motor vehicle registration fees and building permits.

- General government expenditures were under budget by \$328,050 due to health insurance costs increasing less than anticipated.
- Highways and streets expenditures were over budget by \$253,396 due to additional paving being done in the Town.
- Sanitation expenditures were under budget by \$403,330 due to favorable waste collection and gas rates.
- Transfers out were under budget by \$350,000 due to subsidy for sewer fund upgrades that was not used in fiscal year 2017 as the project has not begun.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$77,118,772 (net of accumulated depreciation), a change of \$241,946 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 31 of this report.

Change in credit rating. At the end of the current fiscal year, the Town's credit rating on outstanding bonded debt was Aa2, which was unchanged from the prior year.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$10,458,000, all of which was backed by the full faith and credit of the government. In addition, the Town has outstanding capital leases totaling \$2,628,131, which include both a purchase option and a non-appropriation clause.

Additional information on the Town's long-term debt can be found in Note 14 and Note 15 on pages 32-34 of this report.

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

The economic outlook for the Town of Londonderry continues to be very strong. According to US Census numbers for 2016, Londonderry was the fastest growing community in New Hampshire, adding more residents for that year than Manchester and Nashua combined. In the area of Pettengill Road, both FW Webb and EFI are slated to open their new facilities in the spring of 2018. In the Exit 5 area, Northeast Poultry Products will begin construction of their new facility in the spring of 2018. Finally, in the area of Exit 4, the 600+ acre Woodmont Commons mixed-use development has started construction on its infrastructure. This development is also the proposed site for Amazon's second headquarters that was submitted by the State of New Hampshire.

For the upcoming fiscal year, the taxpayers approved at the Annual Budgetary Town Meeting a combined \$34,458,194 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. Between 2016 and 2017, the Town added \$132,859,002 to its total assessed valuation.

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, 2017

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Current: | |
| Cash and short-term investments | \$ 44,024,614 |
| Investments | 12,726,253 |
| Receivables, net of allowance for uncollectibles: | |
| Property taxes | 6,488,691 |
| User fees | 378,181 |
| Departmental and other | 525,565 |
| Prepaid items | 2,416 |
| Total current assets | 64,145,720 |
| Noncurrent: | |
| Receivables, net of allowance for uncollectibles: | |
| Property taxes | 28,518 |
| Capital assets: | |
| Land and construction in progress | 15,992,896 |
| Other capital assets, net of accumulated depreciation | 61,125,876 |
| Total non-current assets | 77,147,290 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Related to pensions | 10,260,721 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 151,553,731 |
| LIABILITIES | |
| Current: | |
| Accounts payable | 1,192,464 |
| Accrued liabilities | 375,154 |
| Tax refunds payable | 44,134 |
| Other liabilities | 333,280 |
| Current portion of long-term liabilities: | |
| Capital leases | 632,780 |
| Bonds payable | 1,938,129 |
| Compensated absences | 234,524 |
| Landfill post-closure | 19,235 |
| Total current liabilities | 4,769,700 |
| Noncurrent: | |
| Capital leases, net of current portion | 1,995,351 |
| Bonds payable, net of current portion | 8,519,871 |
| Compensated absences, net of current portion | 1,599,326 |
| Landfill post-closure, net of current portion | 134,645 |
| Net pension liability | 38,506,601 |
| Net OPEB liability | 7,462,817 |
| Total non-current liabilities | 58,218,611 |
| DEFERRED INFLOWS OF RESOURCES | |
| Related to pensions | 1,331,418 |
| Related to other post employment benefits | 4,045,720 |
| Taxes collected in advance | 34,548,006 |
| Unavailable revenues | 5,846,377 |
| Total deferred inflows of resources | 45,771,521 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | 108,759,832 |
| NET POSITION | |
| Net investment in capital assets | 65,752,641 |
| Restricted externally or constitutionally for: | |
| Permanent funds: | |
| Nonexpendable | 1,018,004 |
| Expendable | 110,497 |
| Restricted by enabling legislation | 5,969,527 |
| Unrestricted | (30,056,770) |
| TOTAL NET POSITION | \$ 42,793,899 |

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, 2017

| | | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position |
|---|----------------------|---------------------------------|---|---|---|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Governmental Activities</u> |
| GOVERNMENTAL ACTIVITIES: | | | | | |
| General government | \$ 3,651,297 | \$ 98,973 | \$ - | \$ - | \$ (3,552,324) |
| Public safety | 19,790,709 | 3,911,157 | 25,423 | - | (15,854,129) |
| Highways and streets | 6,109,387 | - | 591,590 | - | (5,517,797) |
| Sanitation | 4,161,919 | 2,837,297 | 119,578 | - | (1,205,044) |
| Health and welfare | 110,873 | - | - | - | (110,873) |
| Culture and recreation | 1,950,615 | 559,629 | 120,319 | - | (1,270,667) |
| Conservation | 18,407 | - | - | - | (18,407) |
| Economic development | 442,622 | - | - | - | (442,622) |
| Interest | 392,866 | - | - | - | (392,866) |
| Total Governmental Activities | <u>\$ 36,628,695</u> | <u>\$ 7,407,056</u> | <u>\$ 856,910</u> | <u>\$ -</u> | <u>(28,364,729)</u> |
| GENERAL REVENUES: | | | | | |
| | | | | | 17,861,628 |
| Property taxes | | | | | 1,364,516 |
| Interest, penalties and other taxes | | | | | 8,004,085 |
| Motor vehicle registrations | | | | | 1,294,723 |
| Grants and contributions not restricted to specific programs | | | | | 171,362 |
| Investment income | | | | | 1,783 |
| Sale of town property | | | | | <u>28,698,097</u> |
| Total general revenues | | | | | 333,368 |
| Change in net position | | | | | |
| NET POSITION: | | | | | |
| | | | | | 42,460,531 |
| Beginning of year, as restated | | | | | \$ <u>42,793,899</u> |
| End of year | | | | | |

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

TOWN OF LONDONDERRY, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

| | <u>General</u> | <u>Sewer Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-----------------------------|----------------------------|--|---|
| ASSETS | | | | |
| Cash and short-term investments | \$ 41,233,263 | \$ - | \$ 2,791,352 | \$ 44,024,615 |
| Investments | 11,729,250 | - | 997,003 | 12,726,253 |
| Receivables, net of allowance for uncollectibles: | | | - | |
| Property taxes | 6,434,191 | - | 54,500 | 6,488,691 |
| User fees | 329,078 | 49,103 | - | 378,181 |
| Other | 84,281 | - | 441,284 | 525,565 |
| Due from other funds | 324,958 | 5,987,400 | 223,593 | 6,535,951 |
| Prepaid items | 2,416 | - | - | 2,416 |
| Property held for resale | 28,518 | - | - | 28,518 |
| TOTAL ASSETS | <u><u>\$ 60,165,955</u></u> | <u><u>\$ 6,036,503</u></u> | <u><u>\$ 4,507,732</u></u> | <u><u>\$ 70,710,190</u></u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 981,960 | \$ 111,770 | \$ 98,734 | \$ 1,192,464 |
| Accrued liabilities | 468,918 | - | - | 468,918 |
| Tax refunds payable | 44,134 | - | - | 44,134 |
| Due to other funds | 5,172,765 | - | 1,363,186 | 6,535,951 |
| Other liabilities | 333,280 | - | - | 333,280 |
| TOTAL LIABILITIES | <u>7,001,057</u> | <u>111,770</u> | <u>1,461,920</u> | <u>8,574,747</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Taxes collected in advance | 34,548,006 | - | - | 34,548,006 |
| Unavailable revenues | 6,378,714 | - | - | 6,378,714 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>40,926,720</u> | <u>-</u> | <u>-</u> | <u>40,926,720</u> |
| FUND BALANCES | | | | |
| Nonspendable | 30,934 | - | 1,018,004 | 1,048,938 |
| Restricted | 130,576 | 5,924,733 | 218,317 | 6,273,626 |
| Committed | 2,457,797 | - | 2,515,402 | 4,973,199 |
| Assigned | 1,262,135 | - | - | 1,262,135 |
| Unassigned | 8,356,736 | - | (705,911) | 7,650,825 |
| TOTAL FUND BALANCES | <u>12,238,178</u> | <u>5,924,733</u> | <u>3,045,812</u> | <u>21,208,723</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u><u>\$ 60,165,955</u></u> | <u><u>\$ 6,036,503</u></u> | <u><u>\$ 4,507,732</u></u> | <u><u>\$ 70,710,190</u></u> |

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, 2017

| | |
|---|----------------------|
| Total governmental fund balances | \$ 21,208,723 |
| • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 77,118,772 |
| • Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 532,337 |
| • Deferred outflows of resources related to pensions resulting from difference between expected and actual experience, changes in assumptions, difference between projected and actual investment earnings and contributions subsequent to the measurement date will be recognized as an increase in pension expense in the years ending June 30, 2017 through June 30, 2021. | 10,260,721 |
| • Deferred inflows of resources related to pensions resulting from differences between expected and actual experience and changes in proportion will be recognized as a reduction of pension expense in the years ending June 30, 2017 through June 30, 2021. | (1,331,418) |
| • Deferred inflows of resources related to OPEB resulting from differences between expected and actual experience and changes in assumptions will be recognized as a reduction of OPEB expense in the years ending June 30, 2018 through June 30, 2027. | (4,045,720) |
| • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. | (140,761) |
| • Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: | |
| Capital leases | (2,628,131) |
| Bonds payable | (10,458,000) |
| Compensated absences | (1,599,326) |
| Landfill liability | (153,880) |
| Net pension liability | (38,506,601) |
| Net OPEB liability | (7,462,817) |
| Net position of governmental activities | \$ 42,793,899 |

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, 2017

| | <u>General</u> | <u>Sewer Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------|-----------------------|--|---|
| Revenues: | | | | |
| Property taxes | \$ 18,043,842 | \$ - | \$ - | \$ 18,043,842 |
| Interest, penalties and other taxes | 918,337 | - | 525,557 | 1,443,894 |
| Licenses and permits | 8,697,003 | - | - | 8,697,003 |
| Intergovernmental | 1,926,509 | - | 25,923 | 1,952,432 |
| Charges for services | 1,297,376 | 2,712,566 | 2,704,198 | 6,714,140 |
| Investment income | 88,343 | - | 83,022 | 171,365 |
| Other revenues | 58,045 | - | 63,559 | 121,604 |
| Total Revenues | 31,029,455 | 2,712,566 | 3,402,259 | 37,144,280 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 3,342,330 | - | 3,077 | 3,345,407 |
| Public safety | 15,863,030 | - | 2,579,051 | 18,442,081 |
| Highways and streets | 4,231,226 | - | 600,664 | 4,831,890 |
| Sanitation | 1,669,143 | 2,521,468 | 9,955 | 4,200,566 |
| Health and welfare | 110,468 | - | 405 | 110,873 |
| Culture and recreation | 1,782,590 | - | 67,638 | 1,850,228 |
| Conservation | 2,906 | - | 15,501 | 18,407 |
| Economic development | 432,201 | - | - | 432,201 |
| Capital outlay | 701,014 | - | - | 701,014 |
| Debt service | 2,786,452 | - | - | 2,786,452 |
| Total Expenditures | 30,921,360 | 2,521,468 | 3,276,291 | 36,719,119 |
| Excess (deficiency) of revenues over (under) expenditures | 108,095 | 191,098 | 125,968 | 425,161 |
| Other Financing Sources (Uses): | | | | |
| Issuance of capital lease | 230,686 | - | - | 230,686 |
| Transfers in | 346,991 | - | - | 346,991 |
| Transfers out | - | (232,217) | (114,774) | (346,991) |
| Total Other Financing Sources (Uses) | 577,677 | (232,217) | (114,774) | 230,686 |
| Net changes in fund balances | 685,772 | (41,119) | 11,194 | 655,847 |
| Fund Balances, beginning of year, as restated | 11,552,406 | 5,965,852 | 3,034,618 | 20,552,876 |
| Fund Balances, end of year | \$ 12,238,178 | \$ 5,924,733 | \$ 3,045,812 | \$ 21,208,723 |

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, 2017

| | |
|---|-------------------|
| Net changes in fund balances - total governmental funds | \$ 655,847 |
| <ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <ul style="list-style-type: none"> Capital outlay 3,274,080 Loss on disposal of assets (24,137) Depreciation (3,007,996) Use of deposit on capital asset (1,363,995) 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. (182,214) Repayment of principal on bonds and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 2,372,560 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: <ul style="list-style-type: none"> Issuance of capital leases (230,686) In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 21,020 Pension and OPEB related inflows and outflows are not recorded as expenditures in governmental funds, but are recorded as expenses in the Statement of Activities. <ul style="list-style-type: none"> Net pension liability (9,587,020) Pension related deferred inflows & outflows 8,639,280 Net OPEB liability 3,738,694 OPEB related deferred inflows & outflows (4,045,720) 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. <ul style="list-style-type: none"> Compensated absences 58,855 Landfill post-closure liability 14,800 | |
| Change in net position of governmental activities | \$ 333,368 |

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, 2017

| | Original Budget | Final Budget | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|--------------------|-----------------|---|---|
| REVENUES: | | | | |
| Property taxes | \$ 17,351,712 | \$ 17,347,847 | \$ 17,052,070 | \$ (295,777) |
| Interest, penalties, and other taxes | 899,486 | 899,486 | 1,312,237 | 412,751 |
| Licenses and permits | 7,393,500 | 7,393,500 | 8,697,002 | 1,303,502 |
| Intergovernmental | 1,785,920 | 1,926,897 | 1,923,280 | (3,617) |
| Charges for services | 1,273,700 | 1,273,700 | 1,297,376 | 23,676 |
| Investment income | 25,000 | 25,000 | 88,343 | 63,343 |
| Other revenues | 100,000 | 100,000 | 70,676 | (29,324) |
| Total Revenues | 28,829,318 | 28,966,430 | 30,440,984 | 1,474,554 |
| EXPENDITURES | | | | |
| General government | 3,231,829 | 3,638,042 | 3,309,992 | 328,050 |
| Public safety | 16,490,706 | 16,220,213 | 16,070,121 | 150,092 |
| Highways and streets | 3,322,403 | 3,336,116 | 3,589,512 | (253,396) |
| Sanitation | 2,020,299 | 2,020,299 | 1,616,969 | 403,330 |
| Health and welfare | 124,687 | 124,687 | 110,468 | 14,219 |
| Culture and recreation | 1,838,968 | 1,823,842 | 1,798,334 | 25,508 |
| Conservation | 3,300 | 3,300 | 2,906 | 394 |
| Economic development | 475,125 | 477,930 | 452,626 | 25,304 |
| Capital outlay | 1,598,000 | 1,248,000 | 1,245,827 | 2,173 |
| Debt service | 2,086,753 | 2,086,753 | 2,103,170 | (16,417) |
| Total Expenditures | 31,192,070 | 30,979,182 | 30,299,925 | 679,257 |
| Excess (Deficiency) of revenue over expenditures | (2,362,752) | (2,012,752) | 141,059 | 2,153,811 |
| OTHER FINANCING SOURCES AND USES: | | | | |
| Transfers in | 714,752 | 714,752 | 629,173 | (85,579) |
| Transfers out | (724,000) | (1,074,000) | (724,000) | 350,000 |
| Use of fund balance | 2,372,000 | 2,372,000 | - | (2,372,000) |
| Total Other Financing Sources (Uses) | 2,362,752 | 2,012,752 | (94,827) | (2,107,579) |
| Excess of revenues and other sources over expenditures and other uses | \$ - | \$ - | \$ 46,232 | \$ 46,232 |

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, 2017

| | Agency Funds |
|---------------------------------|-----------------|
| ASSETS | |
| Cash and short term investments | \$ 1,243,653 |
| Total Assets | \$ 1,243,653 |
| LIABILITIES | |
| Escrow deposits | \$ 812,517 |
| School funds | 431,136 |
| Total Liabilities | \$ 1,243,653 |

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

TOWN OF LONDONDERRY, NEW HAMPSHIRE

Notes to Financial Statements June 30, 2017

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 2017, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities 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.

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

The Town reports the following fiduciary fund:

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

D. Cash and Short-Term Investments

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

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

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 fair 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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 Statement of Net Position.

J. Fund Equity

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

Fund Balance – 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:

- *Nonspendable funds* are either unspendable in the current form (i.e., prepaid items) or can never be spent (i.e., cemetery perpetual care principal).
- *Restricted funds* are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- *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.
- *Assigned funds* are intended to be used for specific purposes as established by the approved Town Council budget.
- *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 is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

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

| <u>General Fund</u> | Revenues and Other <u>Financing Sources</u> | Expenditures and Other <u>Financing Uses</u> |
|--|---|--|
| Revenues/Expenditures (GAAP basis) | \$ 31,029,455 | \$ 30,921,360 |
| Other financing sources/uses (GAAP basis) | <u>577,677</u> | <u>-</u> |
| Subtotal (GAAP Basis) | 31,607,132 | 30,921,360 |
| Subtract expenditures of prior year appropriation carryforwards | - | (207,269) |
| Add end-of-year appropriation carryforwards to expenditures | - | 639,640 |
| Reverse effect of combining general fund and capital reserve funds (GASB 54) | 226,055 | (31,490) |
| To remove gross up for issuance of capital leases | (230,686) | (230,686) |
| Reverse nonbudgeted activity | <u>(532,344)</u> | <u>(67,630)</u> |
| Budgetary basis | <u>\$ 31,070,157</u> | <u>\$ 31,023,925</u> |

D. Deficit Fund Equity

The deficit in the Exit 4A project (included in nonmajor governmental funds) as of June 30, 2017 of \$705,911 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. RSA 48:16 limits "deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus, exception that a Town with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank."

The 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, 2017, \$2,624,503 of the Town's bank balance of \$43,131,513 was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank's trust department not in the Town's name. Of that amount, \$2,611,655 was invested in the New Hampshire Public Deposit Investment Pool (NHPDIP) which is exempt from disclosure.

The Town also maintains various trust funds that are managed by the Trustees of Trust Funds (Trustees). As of June 30, 2017, none of the Trustees' short-term cash and investment balances of \$131,498 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>Rating</u> | |
|-------------------------|----------------------|-------------------|-------------------|
| | | <u>AAA</u> | <u>A1</u> |
| Federal agencies | \$ 124,520 | \$ 124,520 | \$ - |
| Corporate bonds | <u>209,706</u> | <u>-</u> | <u>209,706</u> |
| Subtotal | 334,226 | <u>\$ 124,520</u> | <u>\$ 209,706</u> |
| Certificates of deposit | 11,740,592 | | |
| Equities | <u>651,435</u> | | |
| Total investments | <u>\$ 12,726,253</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.

The Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

As of June 30, 2017, \$9,201,532 of the Town's investment balance of \$12,726,253 was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank's trust department not in the Town's name.

C. Concentration of Credit Risk

Neither the Town nor the Trustees place limits on the amount that may be invested in any one issuer. The Town invested in several certificates of deposits that represent more than 5% of the total investments. The following represents the Town's investment in certificates of deposit and their respective concentration:

| <u>Investment Issuer</u> | <u>Amount</u> | <u>% of Total Investments</u> |
|--------------------------|----------------------|---------------------------------------|
| Certificates of deposit: | | |
| Citizens Bank | \$ 6,447,555 | 50.7% |
| Primary Bank | 248,219 | 2.0% |
| TD Bank | 3,037,358 | 23.9% |
| Optima Bank | <u>2,007,460</u> | 15.8% |
| Total | <u>\$ 11,740,592</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 | \$ 124,520 | \$ 124,520 | \$ - |
| Corporate bonds | <u>209,706</u> | <u>54,241</u> | <u>155,465</u> |
| Total | <u>\$ 334,226</u> | <u>\$ 178,761</u> | <u>\$ 155,465</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, 2017:

| | | Fair Value Measurements Using: | | |
|----------------------------------|-------------------|--|--|--|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| <u>Description</u> | | | | |
| Investments by fair value level: | | | | |
| Debt securities | | | | |
| Federal agency securities | \$ 124,520 | \$ - | \$ 124,520 | \$ - |
| Corporate bonds | 209,706 | - | 209,706 | - |
| Equity securities | | | | |
| Utilities | 36,514 | 36,514 | - | - |
| Information technology | 92,423 | 92,423 | - | - |
| Materials | 16,569 | 16,569 | - | - |
| Industrials | 100,561 | 100,561 | - | - |
| Healthcare | 105,833 | 105,833 | - | - |
| Financials | 111,360 | 111,360 | - | - |
| Energy | 46,289 | 46,289 | - | - |
| Consumer staples | 73,776 | 73,776 | - | - |
| Consumer discretionary | 68,110 | 68,110 | - | - |
| Total | <u>\$ 985,661</u> | <u>\$ 651,435</u> | <u>\$ 334,226</u> | <u>\$ -</u> |

5. Taxes Receivable

The Town bills property taxes semi-annually, in May and November. Property tax revenues are recognized in the fiscal year for which taxes have been levied. Property taxes are due on July 1 and December 1. Delinquent accounts are charged 12% interest. In March of the next year, a lien is recorded on delinquent property at the Registry of Deeds. The Town purchases all the delinquent accounts by paying the delinquent balance, recording costs, and accrued interest. The accounts that are lienied by the Town will be reclassified from property taxes receivable to unredeemed tax liens receivable. After this date, delinquent accounts will be charged interest at a rate of 18%. The Town annually budgets amounts (overlay for abatements) for property tax abatements and refunds.

Property tax receivables at June 30, 2017 consist of the following, net of an estimated allowance for doubtful account:

| Receivables | Gross Amount | Allowance for Doubtful Accounts | Net Amount |
|-----------------------|---------------------|---------------------------------------|---------------------|
| Real estate taxes | \$ 5,846,377 | \$ - | \$ 5,846,377 |
| Yield taxes | 1,241 | - | 1,241 |
| Land use change taxes | 54,500 | - | 54,500 |
| Tax liens | 632,320 | (79,357) | 552,963 |
| Tax deferrals | 33,610 | - | 33,610 |
| Grand total | <u>\$ 6,568,048</u> | <u>\$ (79,357)</u> | <u>\$ 6,488,691</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

The Town provides sewer services but does not supply public water. Residential sewer user charges are based on a flat rate per quarter. Commercial and industrial sewer user charges have a minimum quarterly charge in addition to usage charges. Sewer bills are mailed twice annually covering January through June, and July through December. User fees receivable reported in the government-wide financial statements are \$49,103.

The Town also reports \$329,078 of ambulance user charges receivable in the government-wide financial statements.

7. Interfund Fund Accounts

Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2017 balances in interfund receivable and payable accounts:

| <u>Fund</u> | <u>Due From Other Funds</u> | <u>Due To Other Funds</u> |
|------------------------------|---------------------------------|-------------------------------|
| General Fund | \$ 324,958 | \$ 5,172,765 |
| Sewer Fund | 5,987,400 | - |
| Nonmajor Governmental Funds: | | |
| Special Revenue Funds: | | |
| Police outside detail | 125,854 | - |
| Police airport division | - | 315,854 |
| Conservation commission | - | 406,889 |
| Grants fund | 33,904 | |
| Reclamation fund | 1,095 | - |
| Other special funds | 62,740 | - |
| Capital Project Funds: | | |
| Exit 4A | - | 640,443 |
| Subtotal Nonmajor Funds | 223,593 | 1,363,186 |
| Total | \$ 6,535,951 | \$ 6,535,951 |

Transfers

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The following is an analysis of interfund transfers:

| <u>Fund</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|------------------------------|---------------------|----------------------|
| General Fund | \$ 346,991 | \$ - |
| Sewer Fund | - | 232,217 |
| Nonmajor Governmental Funds: | | |
| Special Revenue Funds: | | |
| Police airport division | - | 97,274 |
| Permanent funds | - | 17,500 |
| Subtotal Nonmajor Funds | - | 114,774 |
| Total | \$ 346,991 | \$ 346,991 |

Of the transfer into the general fund, \$232,217 was transferred from the sewer fund for their share of the general fund costs. The Town's other routine transfers include

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

8. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------|------------|-------------------|
| Governmental Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and building improvements | \$ 14,611 | \$ 4,304 | \$ (90) | \$ 18,825 |
| Machinery, vehicles, and equipment | 13,998 | 1,234 | (3,319) | 11,913 |
| Intangibles | 656 | 40 | (7) | 689 |
| Infrastructure | 84,722 | 1,176 | - | 85,898 |
| Improvements other than buildings | 632 | 123 | - | 755 |
| Total capital assets, being depreciated | 114,619 | 6,877 | (3,416) | 118,080 |
| Less accumulated depreciation for: | | | | |
| Buildings and building improvements | (4,365) | (388) | 90 | (4,663) |
| Machinery, vehicles, and equipment | (11,049) | (878) | 3,295 | (8,632) |
| Intangibles | (598) | - | 7 | (591) |
| Infrastructure | (40,893) | (1,670) | - | (42,563) |
| Improvements other than buildings | (432) | (72) | - | (504) |
| Total accumulated depreciation | (57,337) | (3,008) | 3,392 | (56,953) |
| Total capital assets, being depreciated, net | 57,282 | 3,869 | (24) | 61,127 |
| Capital assets, not being depreciated: | | | | |
| Land and land improvements | 12,561 | 1,929 | - | 14,490 |
| Construction in progress | 7,034 | 47 | (5,579) | 1,502 |
| Total capital assets, not being depreciated | 19,595 | 1,976 | (5,579) | 15,992 |
| Governmental activities capital assets, net | \$ 76,877 | \$ 5,845 | \$ (5,603) | \$ 77,119 |

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

| | |
|--|--------------|
| Governmental Activities: | |
| General government | \$ 281,186 |
| Public safety | 824,595 |
| Highways and streets | 1,252,347 |
| Sanitation | 528,774 |
| Culture and recreation | 118,777 |
| Economic development | 2,316 |
| Total depreciation expense - governmental activities | \$ 3,007,995 |

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. Deferred outflows of resources related to the Town's Net Pension and Net OPEB liabilities are more fully discussed in Note 20 and Note 21.

10. Accounts Payable

Accounts payable represent 2017 expenditures paid after June 30, 2017.

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, 2017.

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, 2017:

| <u>Fiscal Year</u> | <u>Capital Leases</u> |
|---|---------------------------|
| 2018 | \$ 681,155 |
| 2019 | 536,560 |
| 2020 | 288,188 |
| 2021 | 288,188 |
| 2022 | 250,401 |
| 2023-2026 | <u>777,236</u> |
| Total minimum lease payments | 2,821,728 |
| Less amounts representing interest | <u>(193,597)</u> |
| Present Value of Minimum Lease Payments | <u>\$ 2,628,131</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 6/30/17</u> |
|---------------------------------|--|-------------------------------|---|
| Roadway improvements | 01/15/18 | 3.07% | \$ 120,000 |
| Roadway improvements | 02/01/18 | 1.24% | 100,000 |
| Roadway improvements | 11/15/18 | 3.58% | 300,000 |
| Roadway improvements | 07/15/19 | 2.43% | 300,000 |
| Roadway improvements | 12/01/20 | 2.38% | 400,000 |
| Roadway improvements | 07/15/21 | 2.48% | 500,000 |
| Mammoth Road sewer | 11/01/21 | 4.39% | 600,000 |
| Multi-purpose bond | 07/01/23 | 3.83% | 4,760,000 |
| Refunding bonds | 08/15/26 | 2.00% | 2,220,000 |
| Exit 4A | 03/01/26 | 3.49% | <u>1,158,000</u> |
| Total Governmental Activities: | | | <u>\$ 10,458,000</u> |

C. Future Debt Service

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

| <u>Governmental</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|----------------------|---------------------|----------------------|
| 2018 | \$ 1,938,129 | \$ 328,275 | \$ 2,266,404 |
| 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 | 1,250,800 | 117,197 | 1,367,997 |
| 2023 - 2027 | <u>2,841,671</u> | <u>146,644</u> | <u>2,988,315</u> |
| Total | <u>\$ 10,458,000</u> | <u>\$ 1,236,575</u> | <u>\$ 11,694,575</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.

D. Bond Authorizations/Unissued

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2017 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, 2017, the following changes occurred in long-term liabilities (in thousands):

| | Total | | | Total | Less | Equals |
|--------------------------------|------------------|------------------|-------------------|------------------|-------------------|------------------|
| | Balance | | | Balance | Current | Long-Term |
| | <u>7/1/16</u> | <u>Additions</u> | <u>Reductions</u> | <u>6/30/17</u> | <u>Portion</u> | <u>6/30/17</u> |
| <u>Governmental Activities</u> | | | | | | |
| Capital leases | \$ 3,050 | \$ 231 | \$ (653) | \$ 2,628 | \$ (633) | \$ 1,995 |
| Bonds payable | 12,178 | - | (1,720) | 10,458 | (1,938) | 8,520 |
| Other: | | | | | | |
| Compensated absences | 1,804 | 1,116 | (1,087) | 1,833 | (234) | 1,599 |
| Landfill post-closure | 169 | - | (15) | 154 | (19) | 135 |
| Net pension liability | 28,919 | 9,588 | - | 38,507 | - | 38,507 |
| Net OPEB liability | <u>11,201</u> | <u>-</u> | <u>(3,738)</u> | <u>7,463</u> | <u>-</u> | <u>7,463</u> |
| Totals | <u>\$ 57,321</u> | <u>\$ 10,935</u> | <u>\$ (7,213)</u> | <u>\$ 61,043</u> | <u>\$ (2,824)</u> | <u>\$ 58,219</u> |

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.

The \$153,880 reported as landfill postclosure care liability at June 30, 2017 represents the remaining estimated postclosure maintenance costs. These amounts are based on what it would cost to perform all postclosure care in 2017. 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.

Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 20. Deferred inflows of resources related to OPEB will be recognized in OPEB expense in future years and is more fully described in Note 21.

Taxes collected in advance are reported in the governmental funds balance sheet in connection with May tax bills due July 1 for subsequent fiscal year that were collected prior to June 30.

Unavailable revenues are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

18. Governmental Funds - Balances

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

The following types of fund balances are reported at June 30, 2017:

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, 2017:

| | General Fund | Sewer Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|-----------------|---------------|-----------------------------------|--------------------------------|
| Nonspendable | | | | |
| Prepaid and held for resale | \$ 30,934 | \$ - | \$ - | \$ 30,934 |
| Nonexpendable permanent funds | - | - | 1,018,004 | 1,018,004 |
| Total Nonspendable | 30,934 | - | 1,018,004 | 1,048,938 |
| Restricted | | | | |
| Airport District TIF traffic signalization | 130,576 | - | - | 130,576 |
| Special revenue funds: | | | | |
| Sewer fund | - | 5,924,733 | - | 5,924,733 |
| Leach Library | - | - | 43,942 | 43,942 |
| Other special funds | - | - | 63,878 | 63,878 |
| Expendable permanent funds | - | - | 110,497 | 110,497 |
| Total Restricted | 130,576 | 5,924,733 | 218,317 | 6,273,626 |
| Committed | | | | |
| Subsequent year appropriations: | | | | |
| Roadway maintenance trust | 487,500 | - | - | 487,500 |
| Capital reserve funds | 219,000 | - | - | 219,000 |
| Expendable maintenance trust | 135,000 | - | - | 135,000 |
| Central fire station engineering stud | 35,000 | - | - | 35,000 |
| Water main extension | 230,000 | - | - | 230,000 |
| Capital reserves: | | | | |
| Fire department | 198,442 | - | - | 198,442 |
| Highway trucks | 12,340 | - | - | 12,340 |
| Cemetery land | 27,378 | - | - | 27,378 |
| Highway heavy equipment | 231,654 | - | - | 231,654 |
| Geographic information system | 56,134 | - | - | 56,134 |
| Pillsbury cemetery | 177,832 | - | - | 177,832 |
| Fire department equipment | 107,115 | - | - | 107,115 |
| Cable division equipment | 188,460 | - | - | 188,460 |
| ECO park | 31,360 | - | - | 31,360 |
| Master plan | 624 | - | - | 624 |
| Maintenance reserve | 28,545 | - | - | 28,545 |
| Roadway maintenance | 291,413 | - | - | 291,413 |
| Special revenue funds: | | | | |
| Police outside detail | - | - | 244,844 | 244,844 |
| Police airport division | - | - | 5,940 | 5,940 |
| Conservation | - | - | 2,049,026 | 2,049,026 |
| Reclamation fund | - | - | 215,592 | 215,592 |
| Total Committed | 2,457,797 | - | 2,515,402 | 4,973,199 |
| Assigned | | | | |
| Appeals | 500,000 | - | - | 500,000 |
| Budgetary encumbrances | 762,135 | - | - | 762,135 |
| Total Assigned | 1,262,135 | - | - | 1,262,135 |
| Unassigned | 8,356,736 | - | (705,911) | 7,650,825 |
| Total Fund Balances | \$ 12,238,178 | \$ 5,924,733 | \$ 3,045,812 | \$ 21,208,723 |

19. 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 | \$ 8,356,736 |
| Unavailable revenues | <u>532,338</u> |
| Tax Rate Setting Balance | <u>\$ 8,889,074</u> |

20. 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 $\frac{1}{60}$ or 1.667% of average final compensation (AFC), multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at $\frac{1}{66}$ or 1.515% of AFC multiplied by years of creditable service.

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

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

C. Contributions

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 7% for employees and teachers, 11.55% for police and 11.80% for fire. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and range from 10.86% to 25.32% of covered compensation. The Town's contribution to NHRS for the year ended June 30, 2017 was \$2,592,978, 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, 2017, the Town reported a liability of \$38,506,601 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The 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, 2016, the Town's proportion was 0.72% percent, which was a decrease of 0.006% from its previous year proportion.

For the year ended June 30, 2017, the Town recognized pension expense of \$4,007,933. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 107,009 | \$ 486,243 |
| Changes of assumptions | 4,738,939 | - |
| Net difference between projected and actual earnings on pension plan investments | 2,409,171 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | 845,175 |
| Contributions subsequent to the measurement date | 3,005,602 | - |
| Total | <u>\$ 10,260,721</u> | <u>\$ 1,331,418</u> |

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the pension expense in the year ended June 30, 2017. Other amounts

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

| Year ended June 30: | | |
|---------------------|----|-------------------------|
| 2017 | \$ | 1,088,849 |
| 2018 | | 1,088,849 |
| 2019 | | 1,958,959 |
| 2020 | | 1,701,461 |
| 2021 | | <u>85,583</u> |
| Total | \$ | <u><u>5,923,701</u></u> |

F. Actuarial Assumptions

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

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

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

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

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

| <u>Asset Class</u> | <u>Target Allocation Percentage</u> | <u>Weighted Average Average Long- Term Expected Real Rate of Return</u> |
|----------------------------------|---|---|
| Large Cap Equities | 22.50 % | 4.25% |
| Small/Mid Cap Equities | <u>7.50</u> | 4.50% |
| Total domestic equities | 30.00 | |
| Int'l Equities (unhedged) | 13.00 | 4.75% |
| Emerging Int'l Equities | <u>7.00</u> | 6.25% |
| Total international equities | 20.00 | |
| Core Bonds | 5.00 | 0.64% |
| Short Duration | 2.00 | -0.25% |
| Global Multi-Sector Fixed Income | 11.00 | 1.71% |
| Absolute Return Fixed Income | <u>7.00</u> | 1.08% |
| Total fixed income | 25.00 | |
| Private equity | 5.00 | 6.25% |
| Private debt | 5.00 | 4.75% |
| Opportunistic | <u>5.00</u> | 3.68% |
| Total alternative investments | 15.00 | |
| Real estate | <u>10.00</u> | 3.25% |
| Total | <u><u>100.00</u></u> % | |

G. Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the pension plan's actuarial funding policy and as required by RSA 100-A:16. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25 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 (6.25%) or 1 percentage-point higher (8.25%) than the current rate:

| <u>Fiscal Year Ended</u> | <u>1% Decrease (6.25%)</u> | <u>Current Discount Rate (7.25%)</u> | <u>1% Increase (8.25%)</u> |
|--------------------------|--------------------------------|--|------------------------------------|
| June 30, 2017 | \$ 49,478,359 | \$ 38,506,601 | \$ 29,407,266 |

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.

21. Other Post-Employment Benefits – OPEB (GASB 75)

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about OPEB also are addressed.

A. General Information about the OPEB Plan

Plan description. The Town indirectly provides post-employment health-care for retired employees through an implicit rate covered by current employees. Retirees of the Town that participate in this single employer plan, pay 100% of the healthcare premiums to participate in the Town's healthcare program. Since they are included in the same pool as active employees, the insurance rates are implicitly higher for current employees due to the age consideration. This increased rate is an implicit subsidy the Town pays for the retirees.

The benefits, benefit levels, employee contributions and employer contributions are based on requirements of the New Hampshire Retirement System (NHRS) and governed by RSA 100-A:50.

The OPEB plan is not administered through a trust that meets the criteria in paragraph 4 of GASB 75.

Benefits provided. Retirees and their covered dependents are eligible to participate in the Town's medical, prescription drug, and mental health/substance abuse programs. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

At June 30, 2017, the following employees were covered by the benefit terms:

| | |
|--------------------------------------|------------|
| Inactive employees or beneficiaries | |
| currently receiving benefit payments | 20 |
| Active employees | <u>170</u> |
| Total | <u>190</u> |

B. Total OPEB Liability

The Town's total OPEB liability of \$7,462,817 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|--|---|
| Inflation | 3.25 percent |
| Salary increases | 3.25 percent, average, including inflation |
| Discount rate | 3.56 percent |
| Healthcare cost trend rates | 9 percent as of 2018, decreasing 0.5 percent per year to an ultimate rate of 5 percent as of 2026 and later years |
| Retirees' share of benefit-related costs | 100 percent of projected health insurance premiums for retirees |

The discount rate was based on Fidelity 20-year GO Municipal Bond Index.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2009.

C. Actuarial Assumptions

Differences between expected and actual experience reflect demographic changes and changes in premiums.

Changes of assumptions and other inputs reflect the following:

- The discount rate has been reduced from 4.50% in the last full valuation to 3.56% as of June 30, 2017. This change caused an increase in the Town's liabilities.

- The actuarial cost method has been updated from Projected Unit Credit with linear proration to decrement to Entry Age Normal Level % of Salary. This change has caused a decrease in the Town's liabilities.
- The mortality table has been updated from RP-2000 Combined Mortality Table fully generational using Scale AA to SOA RPH-2015 Total Dataset Mortality Table fully generational using Scale MP-2015. The impact of this change is a decrease in the Town's liabilities.
- Health care trend rates have been reset to an initial rate of 9.0% decreasing by 0.5% annually to an ultimate rate of 5.0%. This change caused an increase in the Town's liabilities.
- Retirement rates have been updated to those used in the New Hampshire Retirement System (NHRS) actuarial valuation as of June 30, 2016. The impact of this change is a decrease in the Town's liabilities.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

| | 1% Decrease (2.56%) | Discount Rate (3.56%) | 1% Increase (4.56%) |
|----------------------|------------------------|-----------------------------|---------------------------|
| Total OPEB liability | \$ 8,190,785 | \$ 7,462,817 | \$ 6,805,411 |

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (8 percent decreasing to 4 percent) or 1-percentage-point higher (10 percent increasing to 6 percent) than the current healthcare cost trend rates:

| | 1% Decrease (8.0% decreasing to 4.0%) | Healthcare Cost Trend Rates (9.0% decreasing to 5.0%) | 1% Increase (10.0% increasing to 6.0%) |
|----------------------|---|--|--|
| Total OPEB liability | \$8,190,785 | \$7,462,817 | \$6,805,411 |

D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2017, the Town recognized an OPEB expense of \$677,353. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Inflows of Resources</u> |
|--|--|
| Differences between expected and actual experience | \$ (3,733,937) |
| Changes of assumptions or other inputs | <u>(311,783)</u> |
| | <u>\$ (4,045,720)</u> |

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

| Year ended June 30 | <u>Deferred Inflows of Resources</u> |
|--------------------|--|
| 2018 | \$ (404,572) |
| 2019 | (404,572) |
| 2020 | (404,572) |
| 2021 | (404,572) |
| 2022 | (404,572) |
| Thereafter | <u>(2,022,860)</u> |
| | <u>\$ (4,045,720)</u> |

22. Commitments and Contingencies

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

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

23. **Beginning Net Position/Fund Balance Restatement**

The Town’s beginning net position has been restated from the previous fiscal year to conform to GASB Statement 75. In accordance with Statement 75, the Town has elected to apply the standard prospectively and not recalculate OPEB related deferred outflows and inflows of resources for prior periods. In addition, the Town has restated general fund beginning fund balance and net position to correct the recognition of payroll withholdings in the current period. Accordingly, the following reconciliation is provided:

Government-Wide Financial Statements:

| | <u>Governmental Activities</u> |
|---------------------------------------|------------------------------------|
| As previously reported | \$ 48,676,278 |
| Restate for implementation of GASB 75 | (6,522,162) |
| Restate prior year prepaid insurance | <u>306,415</u> |
| As restated | <u><u>\$ 42,460,531</u></u> |

Fund Basis Financial Statements:

| | <u>General Fund</u> |
|--------------------------------------|-----------------------------|
| As previously reported | \$ 11,245,991 |
| Restate prior year prepaid insurance | <u>306,415</u> |
| As restated | <u><u>\$ 11,552,406</u></u> |

TOWN OF LONDONDERRY, NEW HAMPSHIRE

SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2017
(Unaudited)

| New Hampshire Retirement System | | | | | | |
|---------------------------------|-------------------------|--|---|------------------------|--|--|
| <u>Fiscal Year</u> | <u>Measurement Date</u> | <u>Proportion of the Net Pension Liability</u> | <u>Proportionate Share of the Net Pension Liability</u> | <u>Covered Payroll</u> | <u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u> | <u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u> |
| June 30, 2017 | June 30, 2016 | 0.72% | \$38,506,601 | \$ 13,693,056 | 281.21% | 65.50% |
| June 30, 2016 | June 30, 2015 | 0.73% | \$38,506,601 | \$ 13,298,078 | 289.57% | 65.47% |
| June 30, 2015 | June 30, 2014 | 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 (GASB 68)

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2017

(Unaudited)

| New Hampshire Retirement System | | | | | |
|--|--|---|---|----------------------------|---|
| <u>Fiscal Year</u> | <u>Contractually Required Contribution</u> | <u>Contributions in Relation to the Contractually Required Contribution</u> | <u>Contribution Deficiency (Excess)</u> | <u>Covered Payroll</u> | <u>Contributions as a Percentage of Covered Payroll</u> |
| June 30, 2017 | \$ 2,592,978 | \$ 2,592,978 | \$ - | \$ 13,693,056 | 18.94% |
| 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.

**TOWN OF LONDONDERRY, NEW HAMPSHIRE
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedule of Net OPEB Liability and Contributions (GASB 75)

(Unaudited)

| | <u>2017</u> |
|---|---------------|
| <u>Net OPEB Liability</u> | |
| Net OPEB liability | \$ 7,462,817 |
| Covered payroll | \$ 11,048,383 |
| Net OPEB liability as a percentage of covered payroll | 67.55% |
| Plan fiduciary net position as a percentage of total OPEB liability | 0.00% |

| | <u>2017</u> |
|--|--------------------|
| <u>Contributions</u> | |
| Actuarially determined contribution | \$ 370,327 |
| Contributions in relation to the actuarially determined contribution | <u>(370,327)</u> |
| Contribution deficiency (excess) | \$ <u><u>-</u></u> |
| Contributions as a percentage of covered payroll | 3.00% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.