

**City of Manchester, New Hampshire
Manchester Water Works**



**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018**

Financial Statements
City of Manchester, New Hampshire
Manchester Water Works
Years Ended June 30, 2019 and June 30, 2018
With Report of Independent Auditors

**City of Manchester, New Hampshire
Manchester Water Works**

Financial Statements

For the Years Ended June 30, 2019 and June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Manchester Board of Water Commissioners
City of Manchester Water Works Department

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

Report on the Financial Statements

We have audited the accompanying statement of net position, changes in financial position, and cash flows of the City of Manchester Water Works Department (an enterprise fund of the City of Manchester), as of and for the years ended June 30, 2019 and 2018, and the related notes to financial statements, which collectively comprise the Department's financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Department'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 an opinion 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 opinion.

As discussed in Note 1, the financial statements present only the Manchester Water Works Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City of Manchester, New Hampshire as of June 30, 2019 and 2018, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Manchester Water Works Department, as of June 30, 2019 and 2018, and the changes in financial position, and cash flows thereof, for the years 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 41 to 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The accompanying supplementary statements and schedules appearing on pages 45 through 47 are presented for purposes of

additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Melanson Heath

January 14, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of Manchester Water Works (MWW) is prepared by management to provide an overview of MWW's financial activities for the years ended June 30, 2019.

THE FINANCIAL STATEMENTS AND THE REPORTING ENTITY

The Financial Statements

The financial statements presented herein include all of the activities of the Manchester Water Works (MWW) using the integrated approach as prescribed by GASB Statement 34.

The financial statements present the financial picture of the MWW from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of MWW (including infrastructure) as well as all liabilities (including long-term debt and OPEB and Pension liabilities).

MWW is an enterprise fund of the City of Manchester (City) and included in the Comprehensive Annual Financial Report (CAFR) of the City. MWW is reported as a business-type activity of the City whereas it charges user fees to customers to cover the cost of services it provides. MWW is governed by a seven-member Board of Water Commissioners, nominated by the Mayor and confirmed by the Board of Mayor and Aldermen of the City. MWW's primary function is to provide potable water and fire protection service for residential, commercial, and industrial entities for the City and certain areas of six surrounding communities. MWW is exempt from New Hampshire Public Utilities Commission regulation pursuant to RSA 362:4. Specifically, MWW invoked RSA 362:4, III-a, which provides that a municipal corporation furnishing water services to customers outside the municipal boundaries may be exempt from Commission regulation in certain circumstances that concern the rates charged to such customers.

REPORTING THE MWW AS A WHOLE

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the MWW as a whole and about its activities. These statements include all assets, liabilities, and deferred outflows and inflows of resources of MWW using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current period's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the MWW *net position* and changes in them. Net position is the difference between assets and deferred outflows over liabilities and deferred inflows, one way to measure the MWW financial health, or *financial position*. Over time, *increases or decreases* in the MWW net position are one indicator of whether its *financial health* is improving or

deteriorating. Other factors to consider are changes in the MWW customer base and condition of the MWW infrastructure.

The Net Position of the MWW for Years Ended June 30, 2019, 2018 and 2017 was as follows:

<u>Summary of Net Position</u>			
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 9,618,973	\$ 9,236,612	\$ 8,027,806
Noncurrent assets	<u>151,831,027</u>	<u>131,141,648</u>	<u>129,150,511</u>
Total assets	161,450,000	140,378,260	137,178,317
Deferred outflows of resources	5,947,173	3,215,335	3,958,768
Current liabilities	13,190,539	5,318,737	4,943,505
Noncurrent liabilities	<u>69,504,502</u>	<u>59,835,413</u>	<u>59,530,149</u>
Total liabilities	82,695,041	65,154,150	64,473,654
Deferred inflows of resources	730,817	1,132,816	446,129
Net position:			
Net investment in capital assets	74,407,584	71,342,623	70,708,429
Restricted	18,309,678	11,415,084	10,605,352
Unrestricted	<u>(8,745,947)</u>	<u>(5,451,078)</u>	<u>(5,096,480)</u>
Total net position	<u>\$ 83,971,315</u>	<u>\$ 77,306,629</u>	<u>\$ 76,217,301</u>

<u>Summary of Changes in Net Position</u>			
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 18,156,205	\$ 17,747,567	\$ 17,226,074
Operating expenses	<u>17,112,748</u>	<u>15,551,996</u>	<u>14,950,589</u>
Operating income	1,043,457	2,195,571	2,275,485
Non-operating revenues (expenses)	683,036	(1,125,047)	(1,296,521)
Capital contributions	<u>4,938,193</u>	<u>1,252,706</u>	<u>2,101,390</u>
Change in net position	6,664,686	2,323,230	3,080,354
Net position, beginning of year, as restated	<u>77,306,629</u>	* <u>74,983,399</u>	<u>73,136,947</u>
Net position, end of year	<u>\$ 83,971,315</u>	<u>\$ 77,306,629</u>	<u>\$ 76,217,301</u>

*FY 2017 amounts were not restated as the Fund has elected to apply GASB 75 prospectively.

Total net position increased 8.62% for the year primarily from contributions to the Merrimack Source Development Project. Restricted assets increased 60.40% and Unrestricted Net Position decreased 60.44% due primarily from the increase in restrictions on net position.

MWW ACTIVITIES

As shown in the Statement of Revenues, Expenses, and Changes in Net Position, the revenue earned from users of the system was \$18,156,205 and \$17,747,567 for the fiscal years 2019 and 2018, respectively. The increase in operating revenues was driven by other operating revenues, which were \$231,526, an increase of 46.43% over the prior year primarily due to increased timber harvesting revenues. Capital contributions were \$4,938,193 and 1,252,706 respectively, an increase of 175.38%. The increase was due primarily to Merrimack Source Development Charges collected for the Southern New Hampshire Interconnection Agreement. Interest earnings from investments were \$322,879 and 142,023 respectively, an increase of 202.61% due primarily to the balance of invested funds and uptick of earning rates.

Debt Administration

Total principal bonded debt, considered a liability, decreased for the year ended June 30, 2019 by \$1,712,239 from normal debt service retirements. See Note 11 in the Notes to the Financial Statements for a summary of all long-term debt obligations.

Cash Management

Cash represents cash on hand and cash deposits maintained by the City Treasurer on behalf of MWW. Under the pooled cash concept, the City invests MWW operating cash into overnight investment deposit accounts planned to coincide with cash needs.

Capital Assets

The capital assets of MWW are those assets, which are used in the performance of MWW's functions including infrastructure assets. At June 30, 2019 and 2018, net capital assets of MWW activities totaled \$127,020,406 and \$122,144,429, respectively. See Note 5 in the Notes to the Financial Statements for a summary of all capital assets.

SIGNIFICANT ACCOMPLISHMENTS OF MWW FOR FISCAL YEAR 2019

- In addition to general improvements including installation of hydrants, water and fire services and paving, 9,065 feet of 2"–12" unlined cast iron and ductile iron main was re-laid, relocated, or replaced with ductile iron main at various locations within the distribution system, all at a cost of approximately \$1,129,196.
- The service area was expanded through contributed capital from developers with the installation of 2,450 feet of 8"-12" main, installation of hydrants and water and fire services at an estimated value of \$687,490.
- A new three (3) million gallon tank was placed in service in Londonderry at a cost of \$2,620,805.
- Major electrical and pumping improvements were completed at the Cohas Pump Station at a cost of \$2,356,689.
- Treatment Plant equipment was replaced at a cost of \$270,694.
- Construction equipment and vehicles were replaced at a cost of \$324,275.

- Office improvements, including replacement windows and carpet, were completed at a cost of \$233,261.

ECONOMIC FACTORS, RATES AND JUNE 30, 2020 BUDGET

Presented below are factors, rates, and a Fiscal Year June 30, 2020 Budget. In considering the MWW Projected Revenue for the year ended June 30, 2020, key assumptions in our revenue forecast were:

- Projected no significant increase in billed consumption from 2019. The consumption used to calculate water use revenue is based on a minimal increase from FY2019 Budget. The customer base used to calculate service and fire charges were also based on 2019 totals.
- The Board of Water Commissioners voted at the June 2019 Board of Water Commissioners Meeting that water usage, service charge, and fire protection charge rates will be increased by 3% for services rendered after September 30, 2019.
- There was no significant anticipated growth in projecting revenue from backflow charges, other fees charged to customers, contributed capital and non-operating revenue sources.
- Projected earnings from interest income are calculated on cash balances held in various savings accounts at current market interest earning rates and from a note receivable.

Fiscal Year June 30, 2020 Budget

The adopted budget of MWW for the year ended June 30, 2020 was \$37,966,917 and is summarized as follows:

Operations and maintenance	
Material, supplies, and outside services	\$ 8,311,609
Salaries and wages	5,295,393
Capital	
Material, supplies, and outside services	20,491,350
Debt service of long-term debt	<u>3,868,565</u>
Total Budget	<u>\$ 37,966,917</u>

The MWW fiscal year June 30, 2020 capital budget designates \$20,491,350 for capital expenses. Major capital projects and improvements net of capitalized overhead are as follows:

- \$13,000,000 for the relocation of the administrative building and the garage facilities on Lincoln Street.
- \$1,100,000 for the cleaning and cement mortar lining of 8,425 linear feet to the distribution system.

- \$1,839,000 for the extension, replacement, and additions of 7,000 linear feet of cast iron water main and appurtenances (water and fire services, hydrants and meters) to the distribution system.
- \$1,600,000 for the design and construction of improvements at the Derryfield Pump Station.
- \$1,000,000 for the design and construction of the improvements at the Main Dam.
- \$1,149,000 for the replacement of treatment plant equipment and HVAC system improvements in the treatment plant.
- \$110,000 to rewind the hydroelectric generator at the Cohas Avenue Pumping Station.
- \$236,250 for planned replacement of MWW vehicles and heavy equipment.

A summary of the MWW's capital assets is presented in Note 5 to the financial statements.

MWW's outstanding general obligation debt at \$35,260,415 is significantly below the 2019 state-imposed legal debt limit for Water and Wastewater debt, which is calculated on 10% of Base Valuation - Real Estate of the City of Manchester. MWW has additional debt liability of notes payable to the Drinking Water State Revolving Loan Program of the New Hampshire Department of Environmental Services. The SRF loans range from 10-30 years with a combined outstanding balance at June 30, 2019 of \$10,882,925. The SRF debt is not subject to the state-imposed legal debt limit.

CONTACTING MWW'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, regulators, MWW investors and creditors with general overview of the MWW finances and to show the MWW's accountability for the money it receives. If you have questions about this report or need additional information, contact Sarah Demos, CPA, Deputy Director, Finance and Administration, at 281 Lincoln Street, Manchester, New Hampshire, 03103, phone (603) 624-6494, or e-mail sdemos@manchesternh.gov.

**City of Manchester, New Hampshire
Manchester Water Works**

Statements of Net Position

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>Assets and Deferred Outflows of Resources</u>		
Current Assets:		
Cash and cash equivalents	\$ 3,301,903	\$ 2,743,188
Due from City	37,260	65,272
Accounts receivable	5,040,216	5,092,080
Materials and supplies	1,130,680	1,170,003
Prepaid expenses	69,887	128,128
Current maturities of note receivable	<u>39,027</u>	<u>37,941</u>
Total Current Assets	9,618,973	9,236,612
Noncurrent Assets:		
Restricted cash and cash equivalents	24,353,273	8,500,844
Note receivable, net of current maturities	457,348	496,375
Capital Assets:		
Non-depreciable capital assets	4,928,653	4,455,912
Depreciable capital assets, net of accumulated depreciation	115,160,223	111,195,445
Land - MSDP	1,275,012	1,275,012
Construction-in-progress - MSDP	<u>5,656,518</u>	<u>5,218,060</u>
Total Noncurrent Assets	151,831,027	131,141,648
Deferred Outflows of Resources		
Loss on advanced refunding	1,208,115	1,291,433
Related to pension - MECRS	3,934,977	1,811,243
Related to OPEB	<u>804,081</u>	<u>112,659</u>
Total Deferred Outflows of Resources	<u>5,947,173</u>	<u>3,215,335</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 167,397,173</u>	<u>\$ 143,593,595</u>

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

(continued)

**City of Manchester, New Hampshire
Manchester Water Works**

Statements of Net Position (Continued)

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>		
Current Liabilities:		
Accounts payable	\$ 3,170,826	\$ 731,990
Deposits and retainage	402,929	254,130
Accrued liabilities	1,844,215	1,402,334
Due to State of New Hampshire	4,994,705	287,050
Current portion of long term liabilities		
Capital lease	58,584	-
General obligation bonds	1,730,697	1,712,238
Notes payable	670,873	655,434
Compensated absences	317,710	275,561
	<u>13,190,539</u>	<u>5,318,737</u>
Total Current Liabilities		
Noncurrent Liabilities:		
Unearned MSDC funding	7,604,100	-
Capital lease, net of current maturities	124,093	-
General obligation bonds payable, net of current maturities	33,529,718	35,260,416
Notes payable, net of current maturities	10,212,052	10,882,925
Net pension liability - MECRS	13,984,328	10,499,273
Net pension liability - Old System	654,246	603,135
Net OPEB liability	2,352,131	1,532,435
Compensated absences	1,043,834	1,057,229
	<u>69,504,502</u>	<u>59,835,413</u>
Total Noncurrent Liabilities		
Deferred Inflows of Resources		
Related to pension - MECRS	482,596	857,792
Related to pension - Old System	14,080	17,493
Related to OPEB	234,141	257,531
	<u>730,817</u>	<u>1,132,816</u>
Total Deferred Inflows of Resources		
Total Liabilities and Deferred Inflows of Resources		
	83,425,858	66,286,966
Net Position:		
Net investment in capital assets	74,407,584	71,342,623
Restricted net position - MSDP	18,309,678	11,415,084
Unrestricted net position (deficit)	(8,745,947)	(5,451,078)
	<u>83,971,315</u>	<u>77,306,629</u>
Total Net Position		
Total Liabilities, Deferred Inflows of Resources, and Net Position		
	<u>\$ 167,397,173</u>	<u>\$ 143,593,595</u>

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

City of Manchester, New Hampshire
Manchester Water Works
Statements of Revenues, Expenses, and
Changes in Net Position

	<u>Year ended</u> <u>June 30, 2019</u>	<u>Year ended</u> <u>June 30, 2018</u>
Operating Revenues:		
Water use, service charges:		
Residential	\$ 6,739,554	\$ 6,755,362
Commercial	5,417,432	5,262,408
Industrial	578,338	498,611
Wholesale	1,616,253	1,639,543
Private fire protection services	1,749,042	1,675,481
Municipal fire protection services	483,135	466,014
Service fees charged to customers	380,131	370,401
Backflow charges	252,980	245,740
Services charged to customers	98,385	84,740
Billing and collection services reimbursement - EPD	350,000	350,000
Service line protection	259,429	240,908
Other operating revenue	231,526	158,359
	<hr/>	<hr/>
Total Operating Revenues	18,156,205	17,747,567
Operating Expenses:		
Water supply division	4,065,887	3,617,158
Distribution division	3,165,342	2,857,299
Finance and administration division	5,758,133	5,012,847
Depreciation	4,123,386	4,064,692
	<hr/>	<hr/>
Total Operating Expenses	17,112,748	15,551,996
Net Operating Income	1,043,457	2,195,571
Nonoperating Revenues (Expenses):		
Interest income	322,879	142,023
Interest expense	(1,627,559)	(1,642,582)
Rental income	161,578	155,852
Gain on disposal of capital assets	9,341	14,870
Grant for conservation easement	1,698,001	-
Miscellaneous income	118,796	204,790
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	683,036	(1,125,047)
Income Before Capital Contributions	1,726,493	1,070,524
Capital contributions	4,938,193	1,252,706
	<hr/>	<hr/>
Change in Net Position	6,664,686	2,323,230
Net Position, Beginning of Year	77,306,629	74,983,399
	<hr/>	<hr/>
Net Position, End of Year	\$ 83,971,315	\$ 77,306,629
	<hr/>	<hr/>

City of Manchester, New Hampshire
Manchester Water Works
Statements of Cash Flows

	<u>Year ended</u> <u>June 30, 2019</u>	<u>Year ended</u> <u>June 30, 2018</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 18,332,263	\$ 17,505,556
Cash payments for goods and employees for services	<u>(11,330,614)</u>	<u>(11,131,755)</u>
Net Cash Provided by Operating Activities	7,001,649	6,373,801
Cash Flows from Non-Capital Financing Activities:		
Proceeds from rental income	161,578	155,852
Other income	<u>118,796</u>	<u>-</u>
Net Cash Provided by Non-Capital Financing Activities	280,374	155,852
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(8,999,363)	(5,307,201)
Contributed capital by federal, state and local governments	12,542,293	1,252,706
Payments to State related to MSDC	2,674,823	-
Proceeds from bond issuance	-	2,355,000
Proceeds from sale of conservation easement	1,698,001	-
Proceeds on amounts due to State	4,707,655	207,521
Proceeds from the sale of capital assets	9,341	14,870
Proceeds from bond premium	-	204,790
Proceeds from issuance of capital lease	182,677	-
Principal paid on bonds and notes payable	(2,367,673)	(1,958,242)
Interest paid on general obligation bonds and notes payable	<u>(1,641,512)</u>	<u>(1,745,168)</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	8,806,242	(4,975,724)
Cash Flows from Investing Activities:		
Interest and other income	<u>322,879</u>	<u>142,023</u>
Net Cash Provided by Investing Activities	322,879	142,023
Net Increase in Cash and Cash Equivalents	16,411,144	1,695,952
Cash and cash equivalents, beginning of year	<u>11,244,032</u>	<u>9,548,080</u>
Cash and cash equivalents, end of year	\$ 27,655,176	\$ 11,244,032
Reconciliation of Operating Income (Loss) to Net Cash provided by Operating Activities:		
Operating income	\$ 1,043,457	\$ 2,195,571
Depreciation	4,123,386	4,064,692
Change in Assets and Liabilities		
Decrease (increase) in receivables	89,805	(207,315)
Decrease (increase) in due from other funds	28,012	(17,459)
Decrease (increase) in other current assets	97,564	(22,024)
Decrease (increase) in deferred outflows of resources	(2,731,838)	743,432
Increase (decrease) in accounts payable	(235,987)	(410,122)
Increase (decrease) in retainage payable	148,799	(144,364)
Increase in accrued expenses	455,834	327,486
Increase (decrease) in compensated absences	28,754	(76,729)
Increase (decrease) in net OPEB liability	819,696	(110,565)
Increase (decrease) in net pension liability	3,536,166	(655,489)
Increase (decrease) in deferred inflows of resources	<u>(401,999)</u>	<u>686,687</u>
Net Cash Provided by Operating Activities	\$ 7,001,649	\$ 6,373,801

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

City of Manchester, New Hampshire
Manchester Water Works
Notes to the Financial Statements

1. Summary of Significant Accounting Policies

Reporting Entity

The Manchester Water Works (“MWW”) is an enterprise fund that functions as a business-type activity and is included in the financial statements of the City of Manchester, New Hampshire (the “City”). MWW is governed by a Board of Water Commissioners appointed by the Board of Aldermen and Mayor of the City. MWW primarily provides water and fire protection service for residential, commercial and industrial entities for the City and six surrounding communities. Water Works is exempt from New Hampshire Public Utilities Commission regulation pursuant to RSA 362:4, III-a, which provides that a municipal corporation furnishing water services to customers outside the municipal boundaries may be exempt from Commission regulation.

As an enterprise fund of the City, MWW is subject to governance requirements imposed upon it by the City and participates in many of the City’s management processes, including cash management, risk management, and employee benefit plans. Accordingly, certain disclosures required by Generally Accepted Accounting Principles (GAAP) have been abbreviated to contain only specific detail. Further information on these disclosures may be found in the City’s Comprehensive Annual Financial Report.

The financial statements present only MWW and do not purport to, and do not present fairly, the financial position of the City and the changes in its financial position, and where applicable, cash flows, as of and for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of MWW are accounted for on the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded as the liabilities are incurred. As an enterprise fund, MWW accounts for its operations in a manner similar to a private business.

Assets, Liabilities and Fund Net Position

Cash, Cash Equivalents and Restricted Cash

All cash and equivalents are managed by the City and consist of cash on hand, U.S. Treasury Bills, overnight investment deposit accounts, and short-term investments with original maturities of three months or less from the date of acquisition. Additional disclosures related to deposits with financial institutions and investments, as required by Statement No. 40 of the Governmental Accounting Standards Board, are included in the notes to the financial statements of the City.

Investments represent marketable securities stated at fair value with a maturity of greater than 90 days and are pooled with other governmental entities and managed by a designee of the City.

City of Manchester, New Hampshire
Manchester Water Works
Notes to the Financial Statements

Accounts Receivable

Accounts receivable are periodically evaluated for collectability based on past history with customers. Management believes that an allowance for uncollectible accounts would be immaterial to the financial statements and has not recorded an allowance for the years ended June 30, 2019 and 2018.

Material and Supplies

Material and supplies, consisting of materials for distribution system maintenance, extensions or repairs, are valued under the average cost method of inventory valuation.

Capital Assets

Improvements are capitalized and are depreciated using the straight-line method over the estimated useful lives of the related assets, which range from 5 to 75 years. Capital projects not completed by the end of a reporting period are classified as construction-in-progress. Calculation of capitalized overhead is determined annually based upon management's review of direct labor and equipment costs related to the construction of capital assets. Period costs, such as routine maintenance and repairs, are charged to expense accounts as incurred. Donated capital assets are recorded at acquisition value at the date of donation.

Contributions in aid of construction ("CIAC") consist of contributions of infrastructure and cash from developers and other property owners who have built properties that will use the services of the MWW. Contributed infrastructure is recorded as revenue when received and depreciated over estimated useful life.

Deferred Outflows/Inflows of Resources

The Statements of Net Position include separate sections for deferred outflows and deferred inflows of resources. These resources represent the consumption or acquisition of net position applicable to a future period or periods and therefore are not recognized as an inflow or outflow of resources until that future reporting period.

Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and the MWW's policies. Vested or accumulated vacation and sick leave are accrued as incurred.

Net Position

Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets consist 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 enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

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Operating Revenues and Expenses

Operating revenues, consisting primarily of charges to customers for water usage and related services, are generated directly from the primary activity of the MWW. Operating expenses include the cost of operations, maintenance, sales and service, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting these definitions are classified as non-operating.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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 expenses during the fiscal year. Actual results could vary from those estimates.

Self-insurance

Certain components of the City, including MWW, are self-insured for workers' compensation, general liability, and health care claims. Accident and health claims are administered through a private carrier. The City is self-insured under this program. The City maintains a stop-loss policy with limits of \$250,000 per year, per claim. A third-party administrator has been established to manage the health care claims. State law generally limits a City's general liability for an incident to \$325,000 per individual and \$1,000,000 per incident. There is a \$1,150,000 limit per employee for workers' compensation claims paid by the City on behalf of MWW, which are reimbursed by MWW.

An accrual for estimated, unpaid workers' compensation claims was recorded by the MWW at June 30, 2019 for \$141. The amount paid by the MWW for its self-insured programs was \$1,107,637 for the year ended June 30, 2019. The City also maintains property insurance with a commercial insurer. Settled claims did not exceed coverage in fiscal year 2019.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statements of Net Position.

Notes payable represents loan agreements with the State of New Hampshire under the State Water Pollution Control Revolving Loan Fund (SRF) program. The purpose of the loans is to aid in financing qualifying projects connected with the expansion of the WTP and water pollution abatement projects.

2. Cash and Cash Equivalents

The following is a summary of MWW's cash, deposits, and external investment pool which reconciles to the Statements of Net Position captions "Cash and cash equivalents" and "Restricted cash and cash equivalents" as of the years ended June 30, 2019 and 2018:

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	2019	2018
Cash and cash equivalents	\$ 3,301,903	\$ 2,743,188
Restricted cash for insurance reserve	100,000	100,000
Restricted cash for capital projects	5,271,026	3,478,832
Restricted cash Merrimack Source Development Project	18,982,247	4,922,012
Total cash and cash equivalents	\$ 27,655,176	\$ 11,244,032

The responsibility for custodial credit risk of deposits and investments and other risks and policies related to investments rests with the City as a whole; accordingly, separate disclosure is not possible. The City of Manchester’s Comprehensive Annual Financial Report provides the detailed disclosure for deposits, investment risks, and fair value.

3. Accounts Receivable

MWW bills customers quarterly, on a rotating basis through twelve billing cycles. Water usage and service charge revenues are recognized in the fiscal year for which water was used. Bills are due thirty days after the date on the quarterly bill. Delinquent accounts are charged 5% interest four days after the due date. Sixty days after the due date, the property will be disconnected if payment has not been secured.

4. Note Receivable

As a condition of the MWW entering into a loan agreement with the State of New Hampshire Drinking Water State Revolving Fund Program (DWSRFP), on behalf of a capital project for the Town of Goffstown, the Town was required to enter into a corresponding note receivable with MWW requiring payments to MWW on a payment schedule consistent with MWW’s payments to DWSRFP. The loan agreement executed between MWW and DWSRFP was in the original amount of \$1,800,000 and was funded through the American Recovery and Reinvestment Act of 2009 (ARRA). Under ARRA, 50% of the aggregate borrowed funds are to be provided as Federal assistance and the remainder as a note payable. The project was completed in 2010 and the loan agreement formalized in 2011. In accordance with ARRA, upon commencement of debt service payments, \$900,000 of the note payable balance was forgiven as Federal financial assistance with a corresponding decrease in the note receivable balance. The balance of the note receivable was \$496,375 and \$534,316 as of June 30, 2019 and 2018, respectively.

**City of Manchester, New Hampshire
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The schedule of payments due to MWW on the outstanding note receivable at June 30, 2019 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 39,027	\$ 14,216	\$ 53,243
2021	40,145	13,098	53,243
2022	41,295	11,949	53,244
2023	42,478	10,766	53,244
2024	43,694	9,549	53,243
2025-2029	237,975	28,244	266,219
2030	<u>51,761</u>	<u>1,482</u>	<u>53,243</u>
Total debt service requirement	<u>\$ 496,375</u>	<u>\$ 89,304</u>	<u>\$ 585,679</u>

5. Capital Assets

Capital asset activity for the fiscal years ended June 30, 2019 and 2018 is detailed below:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Capital assets, not being depreciated:				
Land	\$ 2,681,704	\$ -	\$ -	\$ 2,681,704
Land - MSDP	1,275,012	-	-	1,275,012
Construction-in-Progress	1,774,208	8,326,997	(7,854,256)	2,246,949
Construction-in-Progress - MSDP	<u>5,218,060</u>	<u>438,458</u>	<u>-</u>	<u>5,656,518</u>
Total capital assets, not being depreciated:	10,948,984	8,765,455	(7,854,256)	11,860,183
Capital assets, being depreciated:				
Building and structures	177,170,128	4,953,446	-	182,123,574
Equipment	<u>9,046,078</u>	<u>3,134,718</u>	<u>(54,706)</u>	<u>12,126,090</u>
Total capital assets being depreciated:	186,216,206	8,088,164	(54,706)	194,249,664
Less accumulated depreciation for:				
Building and structures	(68,590,074)	(3,612,668)	-	(72,202,742)
Equipment	<u>(6,430,687)</u>	<u>(510,718)</u>	<u>54,706</u>	<u>(6,886,699)</u>
Total capital assets being depreciated:	<u>(75,020,761)</u>	<u>(4,123,386)</u>	<u>54,706</u>	<u>(79,089,441)</u>
Net total capital assets	<u>\$ 122,144,429</u>	<u>\$ 12,730,233</u>	<u>\$ (7,854,256)</u>	<u>\$ 127,020,406</u>

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	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	\$ 2,646,067	\$ 35,637	\$ -	\$ 2,681,704
Land - MSDP	1,275,012	-	-	1,275,012
Construction-in-Progress	1,502,445	4,876,663	(4,604,900)	1,774,208
Construction-in-Progress - MSDP	5,133,585	84,475	-	5,218,060
Total capital assets, not being depreciated:	10,557,109	4,996,775	(4,604,900)	10,948,984
Capital assets, being depreciated:				
Building and structures	173,216,723	3,970,955	(17,550)	177,170,128
Equipment	8,247,997	959,055	(160,974)	9,046,078
Total capital assets being depreciated:	181,464,720	4,930,010	(178,524)	186,216,206
Less accumulated depreciation for:				
Building and structures	(65,079,869)	(3,527,755)	17,550	(68,590,074)
Equipment	(6,054,724)	(536,937)	160,974	(6,430,687)
Total capital assets being depreciated:	(71,134,593)	(4,064,692)	178,524	(75,020,761)
Net total capital assets	<u>\$ 120,887,236</u>	<u>\$ 5,862,093</u>	<u>\$ (4,604,900)</u>	<u>\$ 122,144,429</u>

6. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by MWW 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 pension and OPEB, in accordance with GASB Statements No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent fiscal year 2019 expenses paid after year end.

8. Deposits and Retainage

MWW collects deposits in advance for work done to the infrastructure, and returns the amount deposited in excess of charges when the work is completed. In addition, MWW withholds 5% of construction contracts as retainage until the contract is complete.

9. Due to State of New Hampshire

MWW had a State Revolving Loan outstanding but not permanently funded as of June 30, 2019. The Loan period began on December 5, 2016 and the anticipated interest rate is 1.96%. The amount outstanding will be permanently funded upon completion of the project, which is

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expected in mid fiscal year 2020. The balance outstanding as of June 30, 2018 and 2019 were \$287,050 and \$4,994,705, respectively.

The following summarizes activity in this State Revolving Fund Loan during fiscal years 2018 and 2019:

	Balance July 1, 2018	Increases	Notes Payable	Balance June 30, 2019
Water Storage Tank & Pump Station	287,050	4,707,655	-	4,994,705
	Balance July 1, 2017	Increases	Notes Payable	Balance June 30, 2018
Water Storage Tank & Pump Station	\$ 9,000,000	\$ -	\$ (9,000,000)	\$ -
Meter Interface Unity Install	1,200,000	-	(1,200,000)	-
Water Storage Tank & Pump Station	79,529	207,521	-	287,050
Total Due to State	\$ 10,279,529	\$ 207,521	\$ (10,200,000)	\$ 287,050

10. Capital Lease Obligations

Lease agreements are entered into for the purpose of financing the acquisition of major pieces of equipment. These lease agreements qualify as capital lease obligations for accounting purposes (although they include clauses that allow for cancellation of the lease in the event the City does not appropriate funds in future years) and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date of the leases.

No leases were outstanding as of June 30, 2018. The following leases were outstanding at June 30, 2019:

Capital lease for wheel loader. Payments of \$33,874 are made annually, including interest of 3.89%, maturing on July 10, 2021.	\$ 101,623
Capital lease for wheel loader. Payments of \$31,816 are made annually, including interest of 3.89%, maturing on November 10, 2021.	<u>95,449</u>
Total leases outstanding	197,072
Less: amount that represents interest	<u>(14,395)</u>
Total lease obligation	182,677
Less: amount due within one year	<u>(58,584)</u>
Capital lease obligation, net of current portion	<u><u>\$ 124,093</u></u>

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Future minimum lease payments consisted of the following as of June 30, 2019:

<u>Fiscal Year</u>	
2020	\$ 65,691
2021	65,691
2022	<u>65,690</u>
Subtotal	197,072
Less: amount that represents interest	<u>(14,395)</u>
Total	<u>\$ 182,677</u>

The following is an analysis for the leased assets included in capital assets at June 30, 2019:

Equipment	\$ 247,993
Less: accumulated depreciation	<u>-</u>
Equipment under capital leases, net	<u>\$ 247,993</u>

11. Long-term Debt

Long-term liability activity for the years ended June 30, 2019 and 2018 is as follows:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Due</u> <u>Within</u> <u>One Year</u>	<u>Noncurrent</u>
Bonds and notes payable:						
Capital lease obligation	\$ -	\$ 247,993	\$ (65,316)	\$ 182,677	\$ 58,584	\$ 124,093
General obligation bonds payable	36,972,654	-	(1,712,239)	35,260,415	1,730,697	33,529,718
Notes Payable (Direct borrowing)	11,538,359	-	(655,434)	10,882,925	670,873	10,212,052
Total bonds and notes payable	48,511,013	247,993	(2,432,989)	46,326,017	2,460,154	43,865,863
Other long-term liabilities:						
Net Pension Liability - MECRS	10,499,273	3,485,055	-	13,984,328	-	13,984,328
Net Pension Liability - Old System	603,135	51,111	-	654,246	-	654,246
Net OPEB Liability	1,532,435	819,696	-	2,352,131	-	2,352,131
Compensated absences	1,332,790	28,754	-	1,361,544	317,710	1,043,834
Total other long-term liabilities	13,967,633	4,384,616	-	18,352,249	317,710	18,034,539
Total Long Term Debt	<u>\$ 62,478,646</u>	<u>\$ 4,632,609</u>	<u>\$ (2,432,989)</u>	<u>\$ 64,678,266</u>	<u>\$ 2,777,864</u>	<u>\$ 61,900,402</u>

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	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018	Due Within One Year	Noncurrent
Bonds and notes payable:						
General obligation bonds payable	\$ 36,028,634	\$ 2,355,000	\$ (1,410,980)	\$ 36,972,654	\$ 1,712,238	\$ 35,260,416
Notes Payable (Direct borrowing)	1,885,621	10,200,000	(547,262)	11,538,359	655,434	10,882,925
Total bonds and notes payable	37,914,255	12,555,000	(1,958,242)	48,511,013	2,367,672	46,143,341
Other long-term liabilities:						
Net Pension Liability - MECRS	11,215,350	-	(716,077)	10,499,273	-	10,499,273
Net Pension Liability - Old System	542,547	60,588	-	603,135	-	603,135
Net OPEB Liability	1,643,000	-	(110,565)	1,532,435	-	1,532,435
Compensated absences	1,409,519	-	(76,729)	1,332,790	275,561	1,057,229
Total other long-term liabilities	14,810,416	60,588	(903,371)	13,967,633	275,561	13,692,072
Total Long Term Debt	\$ 52,724,671	\$ 12,615,588	\$ (2,861,613)	\$ 62,478,646	\$ 2,643,233	\$ 59,835,413

The following general obligation bonds payable are outstanding as of June 30, 2019:

3.00-5.50% GO Bond Payable – Original loan amount of \$1,875,000 for 20 years with annual payments of principal and interest through July 2030; At June 30, 2019, \$1,135,000 was outstanding on this bond.

6.22% GO Bond Payable – Original loan amount of \$992,137 for 20 years with annual payments of principal and interest through June 2031; At June 30, 2019, \$435,097 was outstanding on this bond.

4.50% GO Bond Payable – Original loan amount of \$258,216 for 15 years with annual payments of principal and interest through December 2019; At June 30, 2019, \$24,468 was outstanding on this bond.

4.50% GO Bond Payable – Original loan amount of \$1,652,585 for 15 years with annual payments of principal and interest through December 2019; At June 30, 2019, \$156,596 was outstanding on this bond.

5.00% GO Bond Payable – Original loan amount of \$278,875 for 15 years with annual payments of principal and interest through December 2019; At June 30, 2019, \$24,468 was outstanding on this bond.

5.00% GO Bond Payable – Original loan amount of \$139,096 for 15 years with annual payments of principal and interest through December 2019; At June 30, 2019, \$9,787 was outstanding on this bond.

3.00-5.00% GO Bond Payable – Original loan amount of \$36,375,000 for 20 years with annual payments of principal and interest through December 2033; At June 30, 2019, \$31,195,000 was outstanding on this bond.

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3.25-5.00% GO Bond Payable – Original loan amount of \$2,355,000 for 20 years with annual payments of principal and interest through May 2038; At June 30, 2019, \$2,280,000 was outstanding on this bond.

The annual payments to retire all general obligation long-term debt outstanding at June 30, 2019 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,730,697	\$ 1,236,161	\$ 2,966,858
2021	1,871,957	1,147,311	3,019,268
2022	1,973,278	1,052,390	3,025,668
2023	2,044,363	971,437	3,015,800
2024	2,115,926	906,032	3,021,958
2025-2029	11,594,227	3,472,247	15,066,474
2030-2034	13,299,967	1,349,275	14,649,242
2035-2038	630,000	51,425	681,425
Total debt service requirement	<u>\$ 35,260,415</u>	<u>\$ 10,186,278</u>	<u>\$ 45,446,693</u>

The following notes payable (direct borrowing) are outstanding as of June 30, 2019:

3.27% Note Payable – DWSRFP of \$2,970,000 for 15 years with annual payments of principal and interest through December 2020; At June 30, 2019, \$483,499 was outstanding on this note.

2.86% Note Payable - DWSRFP of \$410,000 for 20 years with annual payments of principal and interest through June 2030; \$205,000 was reclassified as Federal financial assistance in accordance with ARRA. At June 30, 2019, \$131,174 was outstanding on this note.

2.86% Note Payable - DWSRFP of \$1,800,000 for 20 years with annual payments of principal and interest through July 2030; \$900,000 was reclassified as Federal financial assistance in accordance with ARRA. At June 30, 2019, \$534,316 was outstanding on this note.

1.94% Note Payable - DWSRFP of \$700,000 for 10 years with annual payments of principal and interest through January 2022; \$350,000 was reclassified as federal financial assistance in accordance with ARRA. At June 30, 2019, \$116,645 was outstanding on this note.

1.96% Note Payable - DWSRFP of \$9,000,000 for 30 years with annual payments of principal and interest through August 2046. At June 30, 2019, \$8,631,594 was outstanding on this note.

1.23% Note Payable – DWSRFP of \$1,200,000 for 10 years with annual payments of principal and interest through August 2026. At June 30, 2019, \$985,697 was outstanding on this note.

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The annual payments to retire all notes payable (direct borrowing) outstanding at June 30, 2019 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 670,873	\$ 218,388	\$ 889,261
2021	686,713	202,546	889,259
2022	449,296	186,292	635,588
2023	417,281	177,908	595,189
2024	425,050	170,141	595,191
2025-2029	2,005,257	729,824	2,735,081
2030-2034	1,570,860	547,909	2,118,769
2035-2039	1,603,403	394,811	1,998,214
2040-2044	1,766,817	231,395	1,998,212
2045-2047	1,287,375	53,539	1,340,914
Total debt service requirement	<u>\$ 10,882,925</u>	<u>\$ 2,912,753</u>	<u>\$ 13,795,678</u>

12. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by MWW that are applicable to future reporting periods. Deferred inflows have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB, in accordance with GASB Statements No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

13. Merrimack Source Development Project

The Merrimack Source Development Project (“MSDP”) was established to fund the development of the Merrimack River as a source of water to supplement existing water supplies. The project is funded by charges assessed to any new development that connects to the MWW system. Management anticipates this project will be completed during the year ended June 30, 2023. Restricted net assets related to this project as of June 30, 2019 and 2018 include the following:

	<u>2019</u>	<u>2018</u>
Cash	\$ 18,982,247	\$ 4,922,012
Land	1,275,012	1,275,012
Construction in progress	5,656,518	5,218,060
MSDP - Unearned revenue	<u>(7,604,100)</u>	<u>-</u>
Total	<u>\$ 18,309,677</u>	<u>\$ 11,415,084</u>

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14. Primary Government Transactions

MWW provides water and fire protection services to the City including its various departments in exchange for certain government administrative services. The value of these services provided for the years ended June 30, 2019 and 2018 was approximately \$1,950,000 each year.

15. Retirement Plans

MWW (an enterprise fund of the City of Manchester, New Hampshire) follows the provisions of the Governmental Accounting Standards Board Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, with respect to the employees’ retirement funds.

All eligible employees of MWW participate in a City pension plan, either the Manchester Employees’ Contributory Retirement System (MECRS) or the Old System pension plan.

Total Net Pension Liability – MWW

The net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense reported by MWW in the Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position comprise both of the pension plans in which MWW employees participate. Accordingly, the following additional detail is provided:

Total Pension Liabilities, Deferred Outflows and Inflows Related
to Pensions, and Pension Expense

	June 30, 2019			
	<u>Deferred Outflows</u>	<u>Net Pension Liability</u>	<u>Deferred Inflows</u>	<u>Pension Expense</u>
MECRS	\$ 3,934,977	\$ 13,984,328	\$ 482,596	\$ 2,282,840
Old System	-	654,246	14,080	47,698
Total	<u>\$ 3,934,977</u>	<u>\$ 14,638,574</u>	<u>\$ 496,676</u>	<u>\$ 2,330,538</u>
	June 30, 2018			
	<u>Deferred Outflows</u>	<u>Net Pension Liability</u>	<u>Deferred Inflows</u>	<u>Pension Expense</u>
MECRS	\$ 1,811,243	\$ 10,499,273	\$ 857,792	\$ 1,533,728
Old System	-	603,135	17,493	156,366
Total	<u>\$ 1,811,243</u>	<u>\$ 11,102,408</u>	<u>\$ 875,285</u>	<u>\$ 1,690,094</u>

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Manchester Employees' Contributory Retirement System (MECRS)

A. MECRS Plan Description

In 1974, the City established the Manchester Employees' Contributory Retirement System (the MECRS), a single-employer public employee retirement system that provides pension benefits to covered employees other than firefighters, police officers, teachers and employees previously covered under the Old System pension plan. Manchester School District administration employees are also covered under the MECRS plan.

MECRS is a component unit of the City of Manchester and is reported as a fiduciary fund type in the City's Comprehensive Annual Financial Report. MECRS also issues an annual stand-alone financial report that is available from the MECRS administrative offices at 1045 Elm Street, Suite 403, Manchester, New Hampshire 03101-1824. This stand-alone report can also be downloaded from the MECRS website at www.manchesterretirement.org.

MWW's membership in the MECRS consisted of the following at December 31, 2018, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	56
Current employees - active or vested	<u>80</u>
Total participants	<u><u>136</u></u>

By policy, the MECRS plan requires (i) an annual actuarial valuation, with yearly updates, and (ii) annual City contributions based on actuarial determinations. During the year of actuarial valuation, the City has historically contributed the annual determined contribution (ADC) of the pension plan. Any difference between the ADC and the actual contribution made has been settled by the next actuarial valuation date.

B. MECRS Benefits Provided

Except as described in the following sentences, the MECRS applies to all full-time and permanent part-time employees of the City, including elected and appointed officials. The MECRS does not cover certain categories of employees, such as temporary employees, members of boards and commissions who are not full-time or permanent part-time employees of the City, members of the fire and police departments who are eligible to participate in the New Hampshire Retirement System (NHRS), and other persons who are eligible to participate in NHRS. In addition, the MECRS does not cover active employees hired before January 1, 1974 who elected to remain in the Old System pension plan.

All covered employees hired after January 1, 1974, are required to participate in the MECRS as a condition of employment. Employees are 100% vested after five years of service. The

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normal retirement age is 60 and the benefit is calculated at 1.5% of final average total compensation during the highest three years of service in the last ten years of service (hereafter final average earnings) multiplied by the years of service. The benefit was increased to 2% for service completed after January 1, 1999. If a member becomes totally and permanently disabled from a job-related incident, there is no service or age requirement and the minimum benefit is 50% of the final average earnings. For a non-job-related incident, disability benefits are payable only if 15 years of service have been rendered and are based on the accrued benefit to the date of disability.

Permanent employees of the City of Manchester prior to January 1, 1974 who were in service as of January 1, 1974, are eligible for early retirement if credited with no less than 20 years of service. Such early retirement benefit shall be equal to the greater of: (i) 50% of the member's final average earnings, or (ii) the sum of the member's years of service multiplied by 1.5% of the member's final average earnings (2% for service completed after January 1, 1999). Members enrolled subsequent to January 1, 1974 are eligible for early retirement benefits if their age plus years of service are equal to or greater than 80, or if they have attained age 55 with 20 years or more of service.

Cost of living adjustments (COLA) are granted pursuant to Administrative Rule 7 by the MECRS Board of Trustees.

MECRS benefit provisions are established by the City and benefit provision changes require amendment of Chapter 218 of the City Charter, first by enabling legislation by the New Hampshire legislature and then subject to approval of the voters of the City through referendum.

C. MECRS Contributions

MECRS employee contribution rates are established by the City. Employee contribution changes require amendment of Chapter 218 of the City Charter, first by enabling legislation by the New Hampshire legislature and then subject to approval of the voters of the City through referendum. Prior to January 1, 1999, all eligible employees were required to contribute 2.5% of their salaries to the MECRS; this contribution increased to 3.75% after January 1, 1999. If an employee leaves covered employment or dies before 5 years of service, the MECRS refunds accumulated employee contributions and their earnings, calculated at the rates determined annually by the MECRS Board of Trustees.

The MECRS' legislative authority requires City contributions in amounts sufficient to fund the benefits set forth in the MECRS. The contributions are determined by the MECRS Board of Trustees on the basis of an independent actuary's valuation and are expressed as a percentage of gross payrolls. Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the pension fund obligation.

The City's contribution rates as a percentage of payrolls in 2018 were based on an actuarial valuation performed as of December 31, 2018. For the years ended June 30, 2019 and 2018, MWW's contributions to MECRS totaled \$1,206,430 and \$1,025,377, respectively. As of

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December 31, 2018 and 2017, MWW's covered employee payroll for MECRS was \$4,765,403 and \$4,478,416, respectively.

D. MECRS 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 MECRS and additions to/deductions from the MECRS' fiduciary net position have been determined on the same basis as they are reported by MECRS. 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. MECRS Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2019, MWW reported a net pension liability of \$13,984,328 for its proportionate share of the MECRS' collective net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. As of December 31, 2018, MWW's proportionate share of the MECRS' collective net pension liability was 9.20%.

At June 30, 2018, MWW reported a net pension liability of \$10,499,273 for its proportionate share of the MECRS' collective net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. As of December 31, 2017, MWW's proportionate share of the MECRS' collective net pension liability was 8.39%.

For the year ended June 30, 2019, MWW recognized pension expense of \$2,282,840. In addition, MWW reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 175,593	\$ 237,719
Net difference between projected and actual investment earnings	1,472,716	-
Changes in assumption	576,979	-
Changes in proportional share of contributions	1,041,629	244,877
Contributions subsequent to the measurement date	668,060	-
Total	<u>\$ 3,934,977</u>	<u>\$ 482,596</u>

Deferred outflows of resources related to the MECRS resulting from MWW's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and (inflows) of resources related to the MECRS will be recognized in MWW's pension expense as follows:

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Year ended June 30:

2020	\$ 1,053,833
2021	505,592
2022	420,408
2023	806,093
2024	<u>(1,605)</u>
Total	<u><u>\$ 2,784,321</u></u>

MECRS Actuarial Assumptions: The total pension liability in the actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date:	December 31, 2018
Actuarial cost method:	Entry-Age Normal
Rate of investment return:	7.00%
Projected salary increases:	3.75% - 7.43%
Inflation rate:	2.75%
COLA assumption:	1.00% compounded annually

Mortality rates for both valuations were based on the RP 2014 Mortality Table projected to 2026 using projection scale MP-2017. This assumption is used to measure the probabilities of members dying after retirement. The projection to 2026 is the margin for mortality improvement. Post-retirement disabled mortality table is the RP-2014 Disabled Retiree Annuitant Table projected to 2026 using projection scale MP-2017. Pre-retirement mortality is modeled using the RP-2014 Employee Mortality Table projected to 2026 using projection scale MP-2017 and multiplied by a factor of 80%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan target asset allocation at December 31, 2018, these best estimates are summarized in the following table:

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<u>Asset Class</u>	<u>Current Target</u>	<u>2019 Assumption</u>	<u>30-Year Real Returns Weighted Return</u>
Cash	2.0%	3.0%	0.1%
Equities:			
Large cap equities	16.0%	8.7%	1.4%
Small/mid cap equities	6.0%	9.5%	0.6%
International equities (unhedged)	10.0%	9.6%	1.0%
International small cap (unhedged)	5.0%	10.1%	0.5%
Emerging international equities	<u>5.0%</u>	12.5%	0.6%
Total equity	42.0%		
Fixed Income:			
Core bonds	6.0%	4.5%	0.3%
Treasury inflation protected securities	4.0%	4.2%	0.2%
Diversified fixed income	6.0%	6.0%	0.4%
Absolute return fixed income	<u>5.0%</u>	4.8%	0.2%
Total Fixed Income	21.0%		
Alternatives:			
Real estate (core)	10.0%	7.8%	0.8%
Liquid alternatives	5.0%	5.9%	0.3%
Private equity	10.0%	13.6%	1.4%
Global asset allocation	<u>10.0%</u>	7.8%	0.8%
Total Alternatives	35.0%		
2019 Expected 30-year real return			<u><u>8.6%</u></u>

MECRS Discount Rate: The discount rate used to measure the total pension liability was 7.00% for both the years ended December 31, 2018 and December 31, 2017.

MECRS Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents MWW's net pension liability calculated using the discount rate, as well as what MWW's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

<u>Year Ended</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
December 31, 2018	\$ 17,792,887	\$ 13,984,328	\$ 10,755,023
December 31, 2017	\$ 13,926,212	\$ 10,499,273	\$ 7,596,363

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F. MECRS Retiree Health Insurance Sub-Trust

Beginning in 2006, following the November 2005 ratification by City referendum of Chapter 41 Laws of 2005, the MECRS began operating a Retiree Health Insurance Sub-Trust (Sub-Trust) pursuant to the provisions of Internal Revenue Code Section 401(h). In March of 2006, the member contribution rate increased by 1.25% to accumulate assets from which to pay benefits and on July 1, 2006, the MECRS began providing health insurance subsidies to both new and existing retirees based upon their creditable service at retirement. The benefit is limited to members who continue to obtain their health insurance through the City's health insurance plan after they retire. The benefit amount for those already retired on March 1, 2006 was equal to 50% of the amount paid to those retiring after that date. As of July 1, 2016, the City's employer contribution rate, which helps fund the benefit, increased to 1.26% based upon actuarial valuation results.

Contributions to the Sub-Trust are commingled with those of the pension trust and are invested in aggregate. All assets are invested as prescribed in the MECRS' investment guidelines. Under no circumstances are the Sub-Trust contributions made by the employee available for refund and in the event of termination, such contributions forfeit to the MECRS. Assets of the Sub-Trust are available solely for the payment of subsidy benefits to qualified members of the MECRS. Should the MECRS be discontinued, assets in excess of those required to meet ongoing benefit obligations of the MECRS would revert to the employer.

G. Pension Plan Fiduciary Net Position

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

Old System Retirement Plan

A. Old System Plan Description

Prior to January 1, 1974, all eligible City employees participated in the Old System, a single-employer contributory public employee retirement system (PERS). When the MECRS was established, all employees hired before January 1, 1974 were given the option to remain in the Old System or participate in the MECRS. The Old System was replaced by the MECRS and only operates to cover the remaining participants. All employees covered under the Old System are fully vested. Benefits under the Old System are limited to retirement benefits without death benefits to survivors.

At July 1, 2018, the date of the latest actuarial valuation, MWW's Old System membership consisted of 9 retirees or beneficiaries receiving benefits. There are no active vested members.

The Old System was closed to new employees as of January 1, 1974.

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B. Old System Benefits Provided

Eligible employees who retire from active employment with the City after completing at least 20 years of service may receive a lifetime annuity equal to 50% of final year's pay. No other benefits are provided under the Old System plan.

C. Contributions

Active members are not required to contribute to the Old System plan. Actuarially determined employer contributions are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported. For the years ended June 30, 2019 and 2018, the City made no contributions to the Old System pension plan.

D. Old System Summary of Significant Accounting Policies

The accounting policies of the Old System as reported in the City's Comprehensive Annual Financial Report for the year ended June 30, 2019 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the Old System are summarized below:

Basis of Accounting – The Old System financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Investment Policy – Investments are reported at market value. Old System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Old System pension plan.

Net Pension Liability - 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 Old System and additions to/deductions from the Old System's fiduciary net position have been determined on the same basis as they are reported by the Old System. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at market value.

E. Old System Pension Liability, Pension Expense, and Deferred Outflows of Resources Related to Pensions

At June 30, 2019, MWW reported a net pension liability of \$654,246 for its proportionate share of the Old System's collective net pension liability. At June 30, 2018, MWW reported a net pension liability of \$603,135 for its proportionate share of the Old System's collective net pension liability. The net pension liability was measured as of July 1, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MWW's proportion of the Old System's collective net pension

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liability was based on its proportion of the total actuarial accrued liability at year end for all plan members. At July 1, 2019, MWW's proportion was 9.68%.

For the year ended June 30, 2018 MWW recognized pension expense of \$47,698. In addition, MWW reported deferred inflows of resources related to pensions of \$14,080 related to the net difference between projected and actual investment earnings.

Amounts reported as deferred inflows of resources related to the Old System will be recognized in MWW's pension expense as follows:

Year ended June 30:	
2020	\$ 841
2021	(12,873)
2022	(2,864)
2023	<u>816</u>
Total	<u>\$ (14,080)</u>

Old System Actuarial Assumptions: The total Old System pension liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date:	July 1, 2018
Actuarial Cost Method:	Entry age normal
Rate of investment return:	3.76%
Projected salary increases:	4.50%
Inflation rate:	3.00%

Mortality rates were based on the RP 2014 Mortality Table projected with full generational mortality improvement using scale MP-2018.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target allocation as of June 30, 2019 are summarized in the following table:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
Domestic equity	42.0%	4.50%
International equity	11.0%	5.90%
Fixed income	42.0%	0.80%
Cash	5.0%	0.00%
Total	<u>100.0%</u>	

Old System Discount Rate: The blended discount rate used to measure the Old System total pension liability was 3.76% for the year ended June 30, 2019 and 4.12% for the year ended June 30, 2018. The projection of cash flows used to determine the discount rate assumed there will continue to be no future contributions made by plan members or the City. Based on those assumptions, the Old System’s fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of pension plan investments was applied to the first seven periods of projected benefit payments and a 3.50% municipal bond rate was applied to all periods thereafter to determine the total pension liability. The 3.50% municipal bond rate was based on the Bond Buyer 20-Bond General Obligation Municipal Bond Index as of June 29, 2019.

Old System Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents MWW’s proportionate share of the Old System’s collective net pension liability, calculated using the current discount rate of 3.76%, as well as what MWW’s proportionate share of the Old System’s collective net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.76%) or 1 percentage-point higher (3.76%) than the current rate:

<u>Year Ended</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
June 30, 2019	\$ 754,287	\$ 654,246	\$ 566,784
June 30, 2018	\$ 708,880	\$ 603,135	\$ 510,740

16. Other Post-Employment Benefits (GASB 75)

GASB Statement No. 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. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

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All eligible employees of MWW participate in the City's plan.

A. OPEB Plan

All the following OPEB disclosures are based on a measurement date of June 30, 2019.

General Information about the OPEB Plan

Plan Description

The City provides post-employment healthcare benefits for retired employees through the City's plan. The City provides health insurance coverage through Anthem, Inc. The OPEB plan is not administered through a trust that meets the criteria in paragraph 4 of GASB 75.

The City indirectly provides post-employment healthcare for retired employees through an implicit rate covered by current employees. Retirees of the City who participate in this single-employer plan pay 100% of the healthcare premiums to participate in the City'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 City pays for the retirees.

Benefits Provided

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

Plan Membership

At June 30, 2019, the following MWW employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	7
Active employees	<u>80</u>
Total	<u><u>87</u></u>

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Actuarial Assumptions and Other Inputs

The total OPEB liability was determined by an actuarial valuation as of July 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.60%
Discount rate	3.5%, net of investment expenses, including inflation
Healthcare cost trend rates	8.00% for 2019, decreasing 0.50% per year for the first six years
Retirees' share of benefit-related costs	100.00%

The discount rate was based on the Bond Buyer 20-Bond GO Index at June 27, 2019.

Mortality rates were based on the RP-2014 Mortality Table, projected with generational mortality improvement using scale MP-2015.

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

Discount Rate

The discount rate used to measure the total OPEB liability was 3.50% for the year ended June 30, 2019 and 3.87% for the year ended June 30, 2018. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Total OPEB Liability

MWW's total OPEB liability of \$839,314 and \$757,180 were measured as of June 30, 2019 and 2018, respectively, and were determined by actuarial valuations as of July 1, 2019 and 2017, respectively.

Changes in the Total OPEB Liability

Detailed information about the changes in total OPEB liability is available in the separately issued City of Manchester, New Hampshire's Comprehensive Annual Financial Report.

Changes of assumptions and other inputs reflect a change in the discount rate from 3.87 percent as of June 30, 2018 to 3.50 percent as of June 30, 2019. Additionally, the health cost trend rates, inflation assumption, mortality tables, retirement rates and turnover rates were updated since the prior measurement.

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Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents MWW's total OPEB liability, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

Year Ended	1% Decrease	Current Discount Rate	1% Increase
June 30, 2019	\$ 917,345	\$ 839,314	\$ 768,894
June 30, 2018	\$ 824,533	\$ 757,180	\$ 696,245

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents MWW's total OPEB liability, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

Year Ended	1% Decrease	Current Healthcare Trend Rate	1% Increase
June 30, 2019	\$ 749,314	\$ 839,314	\$ 945,548
June 30, 2018	\$ 673,156	\$ 757,180	\$ 856,456

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

For the years ended June 30, 2019 and 2018, MWW recognized an OPEB expense of \$58,678 and \$16,409, respectively. At June 30, 2019, MWW reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 173,533
Change in assumptions	<u>88,601</u>	<u>51,498</u>
Total	<u>\$ 88,601</u>	<u>\$ 225,031</u>

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Other amounts reported as deferred inflows/(outflows) of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30:</u>	
2020	\$ 30,994
2021	30,994
2022	30,994
2023	30,216
2024	18,664
Thereafter	<u>(5,432)</u>
Total	<u>\$ 136,430</u>

*B. Manchester Employees' Retirement System Medical Subsidy Plan Description
General Information about the OPEB Plan*

Plan Description

In addition to the OPEB plan discussed in Note 16 A, MWW participates in the Manchester Employees' Contributory Retirement System (MECRS) Medical Subsidy. The MECRS administers a single-employer public employee retirement system that provides pension benefits to covered employees other than firefighters, police officers, teachers and employees previously covered under the Old System pension plan. Manchester School District administration employees are also covered under the MECRS plan.

Benefits Provided

The OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical subsidy is a payment made by MECRS to the former employer or their insurance administrator toward the cost of health insurance for a qualified retiree. Spouses, dependents and/or beneficiaries are not eligible for any subsidy. The full amount of the monthly health insurance subsidy is \$200 as of January 1, 2006 and increases by 4% annually beginning January 1, 2007. The full \$200 is prorated based on the member's service at retirement. Active members must contribute 1.25% of pay.

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Actuarial Assumptions and Other Inputs

MWW's proportionate share of the MECRS Medical Subsidy as of June 30, 2019 is based upon an actuarial valuation performed as of December 31, 2018. The actuarial valuation used the following actuarial assumptions:

Price inflation	2.25%
Wage inflation	2.75%
Salary increases	3.75% to 7.43%
Investment rate of return	7.00%
Discount rate	7.00%

Mortality rates were based on the RP-2014 mortality table projected to 2026 using projection scale MP-2017.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the most recent experience study, which was for the five year period ended December 31, 2016.

Net OPEB Liability, Expense, and Deferred Outflows and Inflows

MWW's proportionate share of the net MECRS Medical Subsidy (net OPEB liability) as of the measurement date of June 30, 2019 was \$1,512,817 and as of the measurement date of June 30, 2018 was \$775,255.

For the year ended June 30, 2019, MWW reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Contributions subsequent to the measurement date	\$ 11,899	\$ -
Difference between expected and actual experience	69,133	9,110
Changes in proportion	426,608	-
Change in assumptions	143,136	-
Net difference between projected and actual OPEB investment earnings	<u>64,704</u>	<u>-</u>
Total	<u>\$ 715,480</u>	<u>\$ 9,110</u>

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The \$11,899 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ending June 30, 2020.

Other amounts reported as deferred outflows and (inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30:</u>	
2020	\$ 118,197
2021	118,197
2022	118,197
2023	135,421
2024	104,148
Thereafter	<u>100,311</u>
Total	<u>\$ 694,471</u>

Sensitivity of the Net MECRS Medical Subsidy OPEB Liability to Changes in the Discount Rate

Detailed information about the sensitivity of the net MECRS medical subsidy OPEB liability to changes in the discount rate is available in the separately issued City of Manchester, New Hampshire's Comprehensive Annual Financial Report.

C. Consolidation of Total/Net OPEB Liabilities and Related Deferred Outflows and Inflows

The following consolidates MWW's total OPEB liability and related deferred outflows/inflows, and MWW's proportionate share of the MECRS Medical Subsidy net OPEB liability and related deferred outflows/inflows at June 30, 2019 and 2018:

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June 30, 2019

	Net OPEB <u>Liability</u>	Total Deferred Outflows <u>of Resources</u>	Total Deferred Inflows <u>of Resources</u>	Total OPEB <u>Expense</u>
MWW OPEB Plan	\$ 839,314	\$ 88,601	\$ 225,031	\$ 58,678
Proportionate share of MECRS Medical Subsidy Plan	<u>1,512,817</u>	<u>715,480</u>	<u>9,110</u>	<u>209,594</u>
Total	<u>\$ 2,352,131</u>	<u>\$ 804,081</u>	<u>\$ 234,141</u>	<u>\$ 268,272</u>

June 30, 2018

	Net OPEB <u>Liability</u>	Total Deferred Outflows <u>of Resources</u>	Total Deferred Inflows <u>of Resources</u>	Total OPEB <u>Expense</u>
MWW OPEB Plan	\$ 757,180	\$ -	\$ 209,014	\$ 16,409
Proportionate share of MECRS Medical Subsidy Plan	<u>775,255</u>	<u>112,659</u>	<u>48,517</u>	<u>-</u>
Total	<u>\$ 1,532,435</u>	<u>\$ 112,659</u>	<u>\$ 257,531</u>	<u>\$ 16,409</u>

17. City Inter-Department Agreements

The MWW has entered into an agreement with the Department of Highways – Environmental Protection Division (EPD) whereby the MWW will provide billing and collection services for combined utilities billings in exchange for EPD reimbursing a proportionate cost of such services. This arrangement and agreement went into effect around January 1, 2015. The reimbursement amount for the years ended June 30, 2019 and June 30, 2018 was \$350,000 each year.

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**Schedule of Proportionate Share
of the Net Pension Liability (GASB 68)
Required Supplementary Information
(Unaudited)**

Manchester Employees' Contributory 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, 2019	December 31, 2018	9.20%	\$ 13,984,328	\$ 4,765,403	293.46%	57.30%
June 30, 2018	December 31, 2017	8.39%	\$ 10,499,273	\$ 4,478,416	234.50%	63.67%
June 30, 2017	December 31, 2016	8.63%	\$ 11,215,350	\$ 4,564,895	245.69%	59.63%
June 30, 2016	December 31, 2015	8.72%	\$ 11,149,683	\$ 4,618,483	241.41%	59.33%
June 30, 2015	December 31, 2014	8.58%	\$ 8,968,809	\$ 4,656,272	192.62%	64.82%

Old 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, 2019	June 30, 2019	9.68%	\$ 654,246	\$ -	N/A	49.43%
June 30, 2018	June 30, 2018	9.78%	\$ 603,135	\$ -	N/A	55.15%
June 30, 2017	June 30, 2017	8.74%	\$ 542,547	\$ 24,771	2190.25%	57.46%
June 30, 2016	June 30, 2016	8.89%	\$ 634,491	\$ 24,945	2543.56%	55.44%
June 30, 2015	June 30, 2015	9.89%	\$ 431,657	\$ 45,382	951.16%	72.82%

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

See Independent Auditors' Report.

**City of Manchester, New Hampshire
Manchester Water Works**

**Schedule of Pension Contributions (GASB 68)
Required Supplementary Information
(Unaudited)**

Manchester Employees' Contributory Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2019	\$ 1,206,430	\$ 1,206,430	\$ -	\$ 5,039,905	23.94%
June 30, 2018	\$ 1,025,377	\$ 1,025,377	\$ -	\$ 4,411,776	23.24%
June 30, 2017	\$ 1,027,859	\$ 1,027,859	\$ -	\$ 4,564,895	22.52%
June 30, 2016	\$ 1,028,096	\$ 1,028,096	\$ -	\$ 4,618,483	22.26%
June 30, 2015	\$ 1,048,435	\$ 1,048,435	\$ -	\$ 4,656,272	22.52%

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

See Independent Auditors' Report.

**City of Manchester, New Hampshire
Manchester Water Works**

**Schedule of Proportionate Share
of Net OPEB Liability (GASB 75)
Required Supplementary Information
(Unaudited)**

City OPEB Plan						
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net OPEB Liability</u>	<u>Proportionate Share of the Net OPEB Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Net OPEB Liability</u>
June 30, 2019	June 30, 2019	2.78%	\$ 839,314	\$ 4,637,672	18.10%	0.00%
June 30, 2018	June 30, 2018	2.69%	\$ 757,180	\$ 4,733,076	16.00%	0.00%

Manchester Employees' Contributory Retirement System Medical Subsidy						
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net OPEB Liability</u>	<u>Proportionate Share of the Net OPEB Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Net OPEB Liability</u>
June 30, 2019	December 31, 2018	9.20%	\$1,512,817	\$ 4,765,403	31.75%	42.73%
June 30, 2018	December 31, 2017	5.59%	\$ 775,255	\$ 4,411,776	17.57%	47.47%

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

See Independent Auditors' Report.

**City of Manchester, New Hampshire
Manchester Water Works**

**Schedule of OPEB Contributions (GASB 75)
Required Supplementary Information
(Unaudited)**

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2019	\$ 83,186	\$ 49,127	\$ 34,059	\$4,637,672	1.06%
June 30, 2018	\$ 91,250	\$ 50,411	\$ 40,839	\$4,733,076	1.07%

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

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

See Independent Auditors' Report.

**City of Manchester, New Hampshire
Manchester Water Works**

Supplementary Information

Schedule of Operating Expenses

	<u>Year Ended June 30, 2019</u>	<u>Year Ended June 30, 2018</u>
Water Supply Division:		
Watershed:		
Salaries and wages	\$ 415,712	\$ 386,831
Vehicle expense	19,484	19,703
Repairs and maintenance	57,243	46,874
Other	1,393	10,843
Total Watershed	<u>493,832</u>	<u>464,251</u>
Pumping:		
Salaries and wages	22	-
Purchased power	324,696	332,509
Fuel heating	18,077	15,862
Repairs and maintenance	14,594	19,620
Total Pumping	<u>357,389</u>	<u>367,991</u>
Treatment:		
Salaries and wages	1,131,211	970,704
Purchased power	676,662	687,222
Chemicals	988,026	779,935
Laboratory	126,229	107,594
Repairs and maintenance	224,399	191,529
Other	47,672	28,930
Total Treatment	<u>3,194,199</u>	<u>2,765,914</u>
Storage:		
Salaries and wages	-	114
Purchased power	5,399	4,706
Repairs and maintenance	15,068	14,182
Total Storage	<u>20,467</u>	<u>19,002</u>
Total Water Supply Division	<u>\$ 4,065,887</u>	<u>\$ 3,617,158</u>

See Independent Auditors' Report.

(continued)

**City of Manchester, New Hampshire
Manchester Water Works**

Supplementary Information

Schedule of Operating Expenses - Continued

	<u>Year Ended June 30, 2019</u>	<u>Year Ended June 30, 2018</u>
Distribution Division:		
Supervision and Engineering:		
Salaries and wages	\$ 679,822	\$ 771,400
Data processing	919	2,409
Office costs	55,221	32,418
Dues and subscriptions	<u>2,028</u>	<u>4,055</u>
Total Supervision and Engineering	737,990	810,282
Construction:		
Salaries and wages	890,285	791,756
Repairs and maintenance - distribution system	709,828	603,837
Repairs and maintenance - other	83,967	111,816
Dig safe program	<u>21,594</u>	<u>21,390</u>
Total Construction	1,705,674	1,528,799
Meter and Backflow:		
Salaries and wages	571,062	431,278
Repairs and maintenance	<u>45,080</u>	<u>52,061</u>
Total Meter and Backflow	616,142	483,339
Garage:		
Salaries and wages	66,729	87,003
Repairs and maintenance - building	1,200	-
Repairs and maintenance - motor vehicles	118,539	74,989
Repairs and maintenance - equipment	43,082	30,059
Fuel - vehicles and equipment	65,405	58,341
Supplies	<u>1,283</u>	<u>2,712</u>
Total Garage	<u>296,238</u>	<u>253,104</u>
Total All Departments	3,356,044	3,075,524
Capitalization - Overhead	<u>(190,702)</u>	<u>(218,225)</u>
Total Water Distribution Division	<u>\$ 3,165,342</u>	<u>\$ 2,857,299</u>

See Independent Auditors' Report.

(continued)

**City of Manchester, New Hampshire
Manchester Water Works**

Supplementary Information

Schedule of Operating Expenses - Continued

	<u>Year Ended June 30, 2019</u>	<u>Year Ended June 30, 2018</u>
Finance and Administration Division:		
Salaries and wages	\$ 980,315	\$ 918,886
Pension - contributory	1,367,921	1,144,828
Net pension and OPEB liability expense	1,138,707	580,747
Dental, health, and accident insurance	1,059,850	1,065,350
Life and disability insurance	6,592	1,801
Payroll taxes	385,224	361,639
Compensated absences	181,207	59,571
Employee benefits - others	37,740	29,109
Property taxes	420,529	436,488
Workers compensation, property and general liability insurance	41,195	300,479
Professional services	12,568	19,152
Conferences and meetings	8,472	7,177
Dues and subscriptions	19,764	23,917
Promotion	19,747	20,219
Building maintenance	65,154	80,324
Building utilities	27,032	24,749
Other operating expenses	4,928	17,182
Postage, mailing	68,548	72,533
Data processing	228,235	224,248
Supplies	24,390	26,871
Telephone	7,776	7,501
Repairs and maintenance	1,997	1,192
Miscellaneous	-	266
	<hr/>	<hr/>
Total	6,107,891	5,424,229
Capitalization - Overhead	<u>(349,758)</u>	<u>(411,382)</u>
Total Finance and Administration Division	<u>\$ 5,758,133</u>	<u>\$ 5,012,847</u>

See Independent Auditors' Report.