



CITY OF PORTSMOUTH, NEW HAMPSHIRE

Management Letter
For the Year Ended June 30, 2021

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To the Honorable Mayor and City Council
City of Portsmouth
Portsmouth, New Hampshire

In planning and performing our audit of the financial statements of the City of Portsmouth, New Hampshire (the City) as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.
- Probable. The future event or events are likely to occur.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine

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The City's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance, including those overseeing the financial reporting process, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Merrimack, New Hampshire
December 15, 2021

CURRENT YEAR RECOMMENDATION:

1. Prepare for Governmental Accounting Standard Board (GASB) Statement No. 87

Governmental Accounting Standard Board (GASB) Statement No. 87 will apply to the City for the year ending June 30, 2022. GASB 87 significantly changes the accounting standards for leases and requires leases to be recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation, July 1, 2021.

We recommend that the City prepare for this accounting change by reviewing GASB 87, and identifying all departments and individuals within the City involved in contracting that may have knowledge of agreements meeting the definition of a lease.

GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. The City should consider establishing a formal documented lease policy to ensure all leases are properly identified and all material leases are recorded in the general ledger in accordance with the new standard. The City should include procedures for tracking and reporting leases both as lessees and lessors. The policy should include examples of lease or rental agreements which are under the scope of GASB 87, such as land leases (i.e. utility renting space for tower), or rent of buildings and equipment, as well as exclusions from the standard, such as short term leases or service contracts.

City's Response:

The City is aware and will implement GASB 87 for the June 30, 2022 financial statements. The City will establish a formal documented lease policy to ensure all leases are properly identified and all material leases are recorded in the general ledger in accordance with the new standard.