

**CITY OF SOMERSWORTH, NEW HAMPSHIRE**

**Annual Financial Statements**

**For the Year Ended June 30, 2007**

## **TABLE OF CONTENTS**

<b>Independent Auditors' Report</b>	<b>1</b>
<b>Management's Discussion And Analysis</b>	<b>3</b>
<b>Basic Financial Statements:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets	10
Statement of Activities	11
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues and Other Sources, and Expendi- tures and Other Uses - Budget and Actual	16
<b>Proprietary Funds:</b>	
Statement of Net Assets	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets	18
Statement of Cash Flows	19
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets	21
<b>Notes to the Financial Statements</b>	<b>22</b>



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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council  
City of Somersworth, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somersworth, New Hampshire, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Somersworth's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somersworth, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, is not a required part of the basic financial statements but is supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management

*Additional Offices:*

Andover, MA • Greenfield, MA • Ellsworth, ME • Manchester, NH

regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Melanson, Heath + Company P.C.*

Nashua, New Hampshire  
January 10, 2008

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

As management of the City of Somersworth, we offer readers this narrative overview and analysis of the financial activities of the City of Somersworth for the fiscal year ended June 30, 2007. We encourage readers to consider the information here in conjunction with additional information that we have furnished in our letter of transmittal.

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

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The statement of net assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, health and welfare, culture and recreation, and education. The business-type activities include water, sewer, and solid waste activities.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate

compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general and debt service funds. A budgetary comparison statement has been provided for the general and debt service funds to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water, sewer, and solid waste operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, and solid waste operations, all of which are considered to be major funds.

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

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by the *Governmental Accounting Standards Board*.

Additional combining statements and schedules are presented immediately following the notes to the financial statements.

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 15,833,937 (i.e., net assets), a change of \$ 58,249 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 5,714,910, a change of \$ 3,967,150 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 1,040,095, a change of \$ 347,819 in comparison with the prior year.
- Total long-term debt at the close of the current fiscal year was \$ 22,918,313, a change of \$ 1,444,653 in comparison to the prior year.

## **C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 13,243	\$ 9,204	\$ 3,126	\$ 7,639	\$ 16,369	\$ 16,843
Capital assets	<u>18,197</u>	<u>18,230</u>	<u>25,350</u>	<u>20,162</u>	<u>43,547</u>	<u>38,392</u>
Total assets	31,440	27,434	28,476	27,801	59,916	55,235
Long-term liabilities outstanding	15,240	12,882	17,931	11,802	33,171	24,684
Other liabilities	<u>7,195</u>	<u>7,185</u>	<u>3,716</u>	<u>7,591</u>	<u>10,911</u>	<u>14,776</u>
Total liabilities	22,435	20,067	21,647	19,393	44,082	39,460
Net assets:						
Invested in capital assets, net	10,543	9,464	8,634	7,828	19,177	17,292
Restricted	97	164	-	-	97	164
Unrestricted	( 1,635)	( 2,261)	( 1,805)	580	( 3,440)	( 1,681)
Total net assets	\$ <u>9,005</u>	\$ <u>7,367</u>	\$ <u>6,829</u>	\$ <u>8,408</u>	\$ <u>15,834</u>	\$ <u>15,775</u>

## CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,175	\$ 951	\$ 2,856	\$ 3,003	\$ 4,031	\$ 3,954
Operating grants and contributions	10,058	9,427	-	-	10,058	9,427
Capital grants and contributions	206	282	-	-	206	282
General revenues:						
Taxes	18,213	16,290	-	-	18,213	16,290
Motor vehicle registration fees	1,434	1,485	-	-	1,434	1,485
Intergovernmental	899	864	497	36	1,396	900
Interest	520	252	64	7	584	259
Miscellaneous	157	339	-	-	157	339
Total revenues	<u>32,662</u>	<u>29,890</u>	<u>3,417</u>	<u>3,046</u>	<u>36,079</u>	<u>32,936</u>
Expenses:						
General government	1,459	1,384	-	-	1,459	1,384
Public safety	4,120	3,680	-	-	4,120	3,680
Highways and streets	2,279	2,087	-	-	2,279	2,087
Health and welfare	235	305	-	-	235	305
Culture and recreation	627	504	-	-	627	504
School department	20,114	18,754	-	-	20,114	18,754
Interest	557	521	-	-	557	521
Other	128	-	-	-	128	-
County assessment	1,851	1,800	-	-	1,851	1,800
Water operations	-	-	1,842	1,387	1,842	1,387
Sewer operations	-	-	2,426	1,893	2,426	1,893
Solid waste operations	-	-	382	402	382	402
Total expenses	<u>31,370</u>	<u>29,035</u>	<u>4,650</u>	<u>3,682</u>	<u>36,020</u>	<u>32,717</u>
Change in net assets before transfers and contributions	1,292	855	(1,233)	( 636)	59	219
Transfers in (out)	346	100	( 346)	( 100)	-	-
Permanent fund contributions	-	1	-	-	-	1
Change in net assets	1,638	956	(1,579)	( 736)	59	220
Net assets - beginning of year, as restated	<u>7,367</u>	<u>6,411</u>	<u>8,408</u>	<u>9,144</u>	<u>15,775</u>	<u>15,555</u>
Net assets - end of year	\$ <u>9,005</u>	\$ <u>7,367</u>	\$ <u>6,829</u>	\$ <u>8,408</u>	\$ <u>15,834</u>	\$ <u>15,775</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 15,833,937, a change of \$ 58,249 from the prior year.

The largest portion of net assets, \$ 19,176,959 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available



for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In fiscal year 2007, as required by the provisions of GASB Statement 34, the City retroactively reported all major general government infrastructure fixed assets (i.e., roads) that were acquired or significantly improved in the fiscal years ending after June 30, 1980. The City's beginning net assets have been restated to reflect the effects of this change. See Note 8 for additional detail.

An additional portion of net assets, \$ 97,601, represents resources that are subject to external restrictions on how they may be used. The remaining balance represents an unrestricted net asset deficit of \$ (3,440,623).

**Governmental activities.** Governmental activities for the year resulted in a change in net assets of \$ 1,637,988. Key elements of this change are as follows:

	<u>Governmental Activities</u>
General fund operating results, as disclosed in Section D	\$ 692,040
Major funds - accrual basis	466,489
Nonmajor funds - accrual basis	( 145,230)
Excess bond principal maturities over depreciation	70,440
Investment in capital assets, funded through tax levy	624,227
Other GAAP accruals	( 69,978)
Total	<u>\$ 1,637,988</u>

**Business-Type Activities.** Business-type activities for the year resulted in a change in net assets of \$ (1,579,739). Key elements of this change are as follows:

Water Fund	\$ ( 532,542)
Sewer Fund	(1,000,956)
Solid Waste Fund	( 46,241)
Total	<u>\$ (1,579,739)</u>

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular,

unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 5,714,910 , a change of \$ 3,967,150 in comparison with the prior year. Key elements of this change is as follows:

	Governmental Funds
General fund operating results, as disclosed below	\$ 692,040
Capital improvements - major fund surplus	3,422,471
Nonmajor fund deficit	( 147,361)
Total	\$ <u>3,967,150</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 1,040,095, while total fund balance was \$ 2,087,183. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 3.5% of total general fund expenditures, while total fund balance represents 7.0% percent of that same amount.

The fund balance of the general fund changed by \$ 692,040 during the current fiscal year. Key factors in this change are as follows:

	General Fund
Revenues in excess of budget	\$ 533,494
Budget expenditures in excess of actual	249,605
Property tax collections exceeding (less than) net tax levy	( 77,682)
Use of fund balance as funding source	(100,000)
Current year encumbrances	<u>86,623</u>
Total	\$ <u>692,040</u>

**Proprietary funds.** Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to a deficit of \$ (1,805,144), a change of \$ (2,348,806) in comparison with the prior year. This deficit was caused by the impact of increased costs due to financing major capital and operational improvements mandated by State and Federal agencies of appropriate jurisdiction overseeing the permitting of the Water and Sewer Treatment Facilities. To that end, the City Council has enacted a series of rate increases on the Water rates, effective July 1, 2007, that will

more than double rates over the next 4 (four) years, and is in the process of reviewing the Sewer rates with the intent to take the appropriate action effective July 1, 2008.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

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

Differences between the original budget and the final amended budget resulted from approval of a fire safety grant of \$ 58,040.

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

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 43,547,937 (net of accumulated depreciation), a change of \$ 5,155,051 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

**Long-term debt.** At the end of the current fiscal year, total bonded and leased debt outstanding was \$ 22,918,313, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Somersworth's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of Finance Director  
City of Somersworth  
One Government Way  
Somersworth, New Hampshire 03878

## CITY OF SOMERSWORTH, NEW HAMPSHIRE

## STATEMENT OF NET ASSETS

June 30, 2007

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 12,108,657	\$ 1,552,874	\$ 13,661,531
Investments	192,039	-	192,039
Receivables, net of allowance for uncollectibles:			
Property taxes	497,017	-	497,017
Departmental	209,012	194,942	403,954
Special assessments	36,222	-	36,222
Intergovernmental	109,380	1,274,016	1,383,396
Inventory	-	103,436	103,436
Other assets	13,421	-	13,421
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Special assessments	22,000	-	22,000
Advance to other funds	55,581	-	55,581
Capital assets:			
Land and construction in progress	2,512,786	7,113,451	9,626,237
Other capital assets, net of accumulated depreciation	<u>15,684,794</u>	<u>18,236,906</u>	<u>33,921,700</u>
<b>TOTAL ASSETS</b>	<b>31,440,909</b>	<b>28,475,625</b>	<b>59,916,534</b>
<b>LIABILITIES</b>			
Current:			
Accounts payable	708,635	238,948	947,583
Accrued liabilities	168,074	380,570	548,644
Tax refunds payable	10,435	-	10,435
Prepaid taxes	7,004,024	-	7,004,024
Internal balances	(864,596)	864,596	-
Due to fiduciary funds	168,294	-	168,294
Notes payable	-	1,900,000	1,900,000
Other current liabilities	-	332,289	332,289
Current portion of long-term liabilities:			
Bonds payable	1,376,127	748,972	2,125,099
Lease payable	18,637	-	18,637
Other liabilities	146,511	-	146,511
Noncurrent:			
Notes payable	-	6,836,616	6,836,616
Advance from other funds	-	55,581	55,581
Bonds payable, net of current portion	10,479,900	10,254,282	20,734,182
Lease payable, net of current portion	40,395	-	40,395
Other liabilities, net of current portion	<u>3,179,048</u>	<u>35,259</u>	<u>3,214,307</u>
<b>TOTAL LIABILITIES</b>	<b>22,435,484</b>	<b>21,647,113</b>	<b>44,082,597</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	10,543,303	8,633,656	19,176,959
Restricted for:			
State and federal grants	(94,439)	-	(94,439)
Permanent funds:			
Nonexpendable	177,136	-	177,136
Expendable	14,904	-	14,904
Unrestricted	<u>(1,635,479)</u>	<u>(1,805,144)</u>	<u>(3,440,623)</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>9,005,425</u></b>	<b>\$ <u>6,828,512</u></b>	<b>\$ <u>15,833,937</u></b>

See notes to financial statements.

CITY OF SOMERSWORTH, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

	Program Revenues		Capital Grants and Contributions		Net (Expenses) Revenues and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions			Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 1,458,443	\$ 12,607	\$ -	\$ (1,320,913)	\$ -	\$ -	\$ (1,320,913)
Public safety	4,120,473	745,198	-	(3,263,009)	-	-	(3,263,009)
Highways and streets	2,279,406	154,363	29,171	(1,748,338)	-	-	(1,748,338)
Health and welfare	234,539	-	-	(162,055)	-	-	(162,055)
Culture and recreation	627,193	10,000	-	(462,372)	-	-	(462,372)
School department	20,114,770	9,136,308	176,918	(10,438,785)	-	-	(10,438,785)
Interest	556,689	-	-	(556,689)	-	-	(556,689)
County assessments	1,850,956	-	-	(1,850,956)	-	-	(1,850,956)
Other	128,310	-	-	(128,310)	-	-	(128,310)
Total Governmental Activities	31,370,779	10,058,476	206,089	(19,931,427)	-	-	(19,931,427)
<b>Business-Type Activities:</b>							
Water services	1,842,728	-	-	-	(652,811)	-	(652,811)
Sewer services	2,426,082	-	-	-	(1,095,998)	-	(1,095,998)
Solid waste services	382,094	-	-	-	(46,241)	-	(46,241)
Total Business-Type Activities	4,650,904	-	-	-	(1,795,050)	-	(1,795,050)
Total	\$ 36,021,683	\$ 10,058,476	\$ 206,089	(19,931,427)	(1,795,050)	(1,795,050)	(21,726,477)
General Revenues:							
Taxes				18,212,620		-	18,212,620
Other revenues not restricted to specific programs:							
Motor vehicle registration fees				1,434,007		-	1,434,007
Intergovernmental				899,319		496,933	1,396,252
Interest				520,209		64,398	584,607
Miscellaneous				157,240		-	157,240
Transfers, net				346,020		(346,020)	-
Total general revenues and transfers				21,569,415		215,311	21,784,726
Change in Net Assets				1,637,988		(1,579,739)	58,249
Net Assets:							
Beginning of year, as restated				7,367,437		8,408,251	15,775,688
End of year				\$ 9,005,425		\$ 6,828,512	\$ 15,833,937

See notes to financial statements.

## CITY OF SOMERSWORTH, NEW HAMPSHIRE

## GOVERNMENTAL FUNDS

## BALANCE SHEET

June 30, 2007

	<u>General</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 7,911,172	\$ 3,869,634	\$ 327,851	\$ 12,108,657
Investments	-	-	192,039	192,039
Receivables:				
Property taxes	599,503	-	-	599,503
Departmental	214,834	-	-	214,834
Intergovernmental	-	-	109,380	109,380
Due from other funds	1,704,211	-	168,788	1,872,999
Advance from other funds	760,465	-	-	760,465
Other assets	<u>13,421</u>	<u>-</u>	<u>-</u>	<u>13,421</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>11,203,606</u></b>	<b>\$ <u>3,869,634</u></b>	<b>\$ <u>798,058</u></b>	<b>\$ <u>15,871,298</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 559,233	\$ 82,968	\$ 66,434	\$ 708,635
Deferred revenues	551,713	-	-	551,713
Due to other funds	1,018,258	38,584	119,855	1,176,697
Advance to other funds	-	-	704,884	704,884
Reserved for tax refund	10,435	-	-	10,435
Prepaid revenue	<u>6,976,784</u>	<u>-</u>	<u>27,240</u>	<u>7,004,024</u>
<b>TOTAL LIABILITIES</b>	<b>9,116,423</b>	<b>121,552</b>	<b>918,413</b>	<b>10,156,388</b>
Fund Balances:				
Reserved for:				
Expenditures	200,000	-	-	200,000
Encumbrances	86,623	-	-	86,623
Perpetual permanent funds	-	-	177,135	177,135
Advance	760,465	-	-	760,465
Unreserved:				
Undesignated, reported in:				
General fund	1,040,095	-	-	1,040,095
Special revenue funds	-	-	260,946	260,946
Capital project funds	-	3,748,082	12,701	3,760,783
Debt service funds	-	-	(586,041)	(586,041)
Permanent Funds	<u>-</u>	<u>-</u>	<u>14,904</u>	<u>14,904</u>
<b>TOTAL FUND BALANCES</b>	<b><u>2,087,183</u></b>	<b><u>3,748,082</u></b>	<b><u>(120,355)</u></b>	<b><u>5,714,910</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ <u>11,203,606</u></b>	<b>\$ <u>3,869,634</u></b>	<b>\$ <u>798,058</u></b>	<b>\$ <u>15,871,298</u></b>

See notes to financial statements.

CITY OF SOMERSWORTH, MASSACHUSETTS

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

JUNE 30, 2007

<b>Total governmental fund balances</b>	\$ 5,714,910
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	18,197,580
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	501,627
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(168,074)
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	<u>(15,240,618)</u>
<b>Net assets of governmental activities</b>	\$ <u><u>9,005,425</u></u>

See notes to financial statements.

## CITY OF SOMERSWORTH, NEW HAMPSHIRE

## GOVERNMENTAL FUNDS

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Taxes	\$ 18,150,322	\$ -	\$ -	\$ 18,150,322
Licenses and permits	1,548,749	-	-	1,548,749
Intergovernmental	9,924,228	-	1,122,757	11,046,985
Charges for services	694,203	-	392,700	1,086,903
Interest income	253,698	255,594	10,917	520,209
Other revenues:				
Contributions	12,607	-	104,292	116,899
Other	157,242	-	-	157,242
Total Revenues	<u>30,741,049</u>	<u>255,594</u>	<u>1,630,666</u>	<u>32,627,309</u>
<b>Expenditures:</b>				
Current:				
General government	1,365,329	-	454	1,365,783
Public safety	4,607,580	436,312	-	5,043,892
Highways and streets	2,036,029	10,719	183,918	2,230,666
Health and welfare	233,933	-	-	233,933
Culture and recreation	599,977	23,114	-	623,091
School department	17,741,554	-	1,522,489	19,264,043
Other	-	35,125	401	35,526
Debt service:				
Principal	910,455	-	290,000	1,200,455
Interest	531,652	-	52,309	583,961
Intergovernmental:				
Assessments	1,850,956	-	-	1,850,956
Total Expenditures	<u>29,877,465</u>	<u>505,270</u>	<u>2,049,571</u>	<u>32,432,306</u>
Excess (deficiency) of revenues over expenditures	863,584	(249,676)	(418,905)	195,003
<b>Other Financing Sources (Uses):</b>				
Transfers in	57,067	246,020	328,611	631,698
Transfers out	(228,611)	-	(57,067)	(285,678)
Proceeds from long-term notes	-	3,426,127	-	3,426,127
Total Other Financing Sources (Uses)	<u>(171,544)</u>	<u>3,672,147</u>	<u>271,544</u>	<u>3,772,147</u>
Net change in fund balances	692,040	3,422,471	(147,361)	3,967,150
Fund Balances, at Beginning of Year	<u>1,395,143</u>	<u>325,611</u>	<u>27,006</u>	<u>1,747,760</u>
Fund Balances, at End of Year	<u>\$ 2,087,183</u>	<u>\$ 3,748,082</u>	<u>\$ (120,355)</u>	<u>\$ 5,714,910</u>

See notes to financial statements.



CITY OF SOMERSWORTH, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2007

<b>NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 3,967,150</b>
<ul style="list-style-type: none"> <li>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</li> </ul>	
Capital outlay purchases, net of disposals	1,096,501
Depreciation	(1,130,015)
<ul style="list-style-type: none"> <li>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.</li> </ul>	64,550
<ul style="list-style-type: none"> <li>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:</li> </ul>	
Repayments of bonded debt	1,200,455
Issuance of bond debt	(3,426,127)
Repayments of leased debt	17,669
<ul style="list-style-type: none"> <li>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li> </ul>	27,272
<ul style="list-style-type: none"> <li>Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.</li> </ul>	(179,467)
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>1,637,988</u></b>

See notes to financial statements.

## CITY OF SOMERSWORTH, NEW HAMPSHIRE

## GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive Negative
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues and other sources:</b>				
Taxes	\$ 18,111,200	\$ 18,111,200	\$ 18,228,004	\$ 116,804
Licenses and permits	1,676,850	1,676,850	1,548,749	(128,101)
Intergovernmental	9,278,488	9,336,528	9,631,333	294,805
Charges for services	529,770	529,770	649,542	119,772
Interest income	180,000	180,000	253,698	73,698
Other revenues	171,458	171,458	227,907	56,449
Transfers in	57,000	57,000	57,067	67
Use of fund balance	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total Revenues and Other Sources	30,104,766	30,162,806	30,696,300	533,494
<b>Expenditures and other uses:</b>				
Current:				
Elected leadership	146,336	146,336	136,039	10,297
City management	309,590	309,590	298,658	10,932
Development services	752,273	752,273	803,306	(51,033)
Police	2,499,633	2,499,633	2,404,850	94,783
Fire	2,018,660	2,076,700	2,089,519	(12,819)
Finance and administration	1,218,973	1,218,973	1,081,077	137,896
Public works & utilities	2,104,870	2,104,870	1,977,811	127,059
School	17,393,117	17,393,117	17,600,267	(207,150)
Other	1,970,956	1,970,956	1,850,956	120,000
Debt service	1,451,746	1,451,746	1,442,107	9,639
Other financing uses:				
Transfers out	<u>238,612</u>	<u>238,612</u>	<u>228,611</u>	<u>10,001</u>
Total Expenditures and Other Uses	<u>30,104,766</u>	<u>30,162,806</u>	<u>29,913,201</u>	<u>249,605</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>783,099</u>	\$ <u>783,099</u>

See notes to financial statements.

## CITY OF SOMERSWORTH, NEW HAMPSHIRE

## PROPRIETARY FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2007

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
<b><u>ASSETS</u></b>				
Current:				
Cash and short-term investments	\$ 1,412,786	\$ 140,088	\$ -	\$ 1,552,874
User fees, net of allowance for uncollectibles	81,947	96,871	16,124	194,942
Intergovernmental receivables	150,847	1,123,169	-	1,274,016
Inventory	99,331	-	4,105	103,436
Total current assets	1,744,911	1,360,128	20,229	3,125,268
Noncurrent:				
Land and construction in progress	6,074,849	1,038,602	-	7,113,451
Other capital assets, net of accumulated depreciation	2,085,566	16,151,340	-	18,236,906
Total noncurrent assets	8,160,415	17,189,942	-	25,350,357
<b>TOTAL ASSETS</b>	9,905,326	18,550,070	20,229	28,475,625
<b><u>LIABILITIES</u></b>				
Current:				
Accounts payable	152,884	59,589	26,475	238,948
Due to other funds	713,727	150,869	-	864,596
Accrued and other liabilities	64,682	315,888	-	380,570
Notes payable	1,900,000	-	-	1,900,000
Other liabilities	332,289	-	-	332,289
Current portion of long-term liabilities:				
Bonds payable	232,741	516,231	-	748,972
Total current liabilities	3,396,323	1,042,577	26,475	4,465,375
Noncurrent:				
Notes payable	5,000,000	1,836,616	-	6,836,616
Advance from other funds	-	-	55,581	55,581
Bonds payable, net of current portion	962,118	9,292,164	-	10,254,282
Other	35,259	-	-	35,259
Total noncurrent liabilities	5,997,377	11,128,780	55,581	17,181,738
<b>TOTAL LIABILITIES</b>	9,393,700	12,171,357	82,056	21,647,113
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	1,965,556	6,668,100	-	8,633,656
Unrestricted	(1,453,930)	(289,387)	(61,827)	(1,805,144)
<b>TOTAL NET ASSETS</b>	\$ 511,626	\$ 6,378,713	\$ (61,827)	\$ 6,828,512

See notes to financial statements.

## CITY OF SOMERSWORTH, NEW HAMPSHIRE

## PROPRIETARY FUNDS

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
<b>Operating Revenues:</b>				
Charges for services	\$ 943,465	\$ 1,242,428	\$ 335,853	\$ 2,521,746
Other	<u>246,452</u>	<u>87,656</u>	<u>-</u>	<u>334,108</u>
Total Operating Revenues	1,189,917	1,330,084	335,853	2,855,854
<b>Operating Expenses:</b>				
Operating expenses	1,048,722	1,463,527	382,094	2,894,343
Depreciation	242,086	615,304	-	857,390
Other	<u>499,694</u>	<u>25,496</u>	<u>-</u>	<u>525,190</u>
Total Operating Expenses	<u>1,790,502</u>	<u>2,104,327</u>	<u>382,094</u>	<u>4,276,923</u>
Operating Income (Loss)	(600,585)	(774,243)	(46,241)	(1,421,069)
<b>Nonoperating Revenues (Expenses):</b>				
Intergovernmental revenue	185,141	311,792	-	496,933
Interest income	64,398	-	-	64,398
Interest expense	<u>(52,226)</u>	<u>(321,755)</u>	<u>-</u>	<u>(373,981)</u>
Total Nonoperating Revenues (Expenses), Net	<u>197,313</u>	<u>(9,963)</u>	<u>-</u>	<u>187,350</u>
Income (Loss) Before Transfers	(403,272)	(784,206)	(46,241)	(1,233,719)
<b>Transfers:</b>				
Transfers out	<u>(129,270)</u>	<u>(216,750)</u>	<u>-</u>	<u>(346,020)</u>
Change in Net Assets	(532,542)	(1,000,956)	(46,241)	(1,579,739)
Net Assets at Beginning of Year	<u>1,044,168</u>	<u>7,379,669</u>	<u>(15,586)</u>	<u>8,408,251</u>
Net Assets at End of Year	<u>\$ 511,626</u>	<u>\$ 6,378,713</u>	<u>\$ (61,827)</u>	<u>\$ 6,828,512</u>

See notes to financial statements.

## CITY OF SOMERSWORTH, NEW HAMPSHIRE

## PROPRIETARY FUNDS

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
<b><u>Cash Flows From Operating Activities:</u></b>				
Receipts from customers and users	\$ 1,035,351	\$ 1,956,196	\$ 394,598	\$ 3,386,145
Payments to vendors and employees	(1,003,465)	(1,385,704)	(394,598)	(2,783,767)
Net Cash Provided By (Used For) Operating Activities	31,886	570,492	-	602,378
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>				
Due from other funds	385,385	-	-	385,385
Due to other funds	-	(574,206)	-	(574,206)
Transfers to other funds	(129,270)	(216,750)	-	(346,020)
Intergovernmental subsidy	185,141	311,792	-	496,933
Net Cash (Used For) Noncapital Financing Activities	441,256	(479,164)	-	(37,908)
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>				
Acquisition and construction of capital assets	(5,930,339)	(115,322)	-	(6,045,661)
Principal payments on bonds and notes	(232,119)	(531,231)	-	(763,350)
Proceeds from issuance of anticipation notes	1,900,000	-	-	1,900,000
Interest expense	(52,226)	(321,755)	-	(373,981)
Proceeds from State revolving loan program	5,000,000	713,447	-	5,713,447
Net Cash (Used For) Capital and Related Financing Activities	685,316	(254,861)	-	430,455
<b><u>Cash Flows From Investing Activities:</u></b>				
Investment income	64,398	-	-	64,398
Net Cash (Used For) Investing Activities	64,398	-	-	64,398
Net Change in Cash and Short-Term Investments	1,222,856	(163,533)	-	1,059,323
Cash and Short Term Investments, Beginning of Year	189,930	303,621	-	493,551
Cash and Short Term Investments, End of Year	\$ 1,412,786	\$ 140,088	\$ -	\$ 1,552,874
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>				
Operating income (loss)	\$ (600,585)	\$ (774,243)	\$ (46,241)	\$ (1,421,069)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	242,086	615,304	-	857,390
Changes in assets and liabilities:				
User fees	(156,779)	(20,240)	(3,082)	(180,101)
Inventory	36,437	-	3,543	39,980
Due from other funds	2,213	646,352	(61,827)	586,738
Accounts payable	152,884	(3,508)	26,475	175,851
Accrued liabilities	25,360	(33,261)	-	(7,901)
Advance from other funds	-	-	61,827	61,827
Other	330,270	140,088	19,305	489,663
Net Cash Provided By (Used For) Operating Activities	\$ 31,886	\$ 570,492	\$ -	\$ 602,378

See notes to financial statements.

CITY OF SOMERSWORTH, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

	Private Purpose Trust Funds	Agency Funds
<b><u>ASSETS</u></b>		
Cash and short term investments	\$ 88,293	\$ 487,383
Investments	108,673	-
Due from other funds	<u>-</u>	<u>168,294</u>
Total Assets	196,966	655,677
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Other liabilities:		
Escrow deposits held	<u>-</u>	<u>655,677</u>
Total Liabilities	<u>-</u>	<u>655,677</u>
<b><u>NET ASSETS</u></b>		
Total net assets held in trust	\$ <u>196,966</u>	\$ <u>-</u>

See notes to financial statements.

CITY OF SOMERSWORTH, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Funds
<b>Additions:</b>	
Investment income (loss)	\$ 8,083
Total additions	<u>8,083</u>
<b>Deductions:</b>	
Miscellaneous:	
Bequests and expenses	<u>994</u>
Total deductions	<u>994</u>
Net increase (decrease)	7,089
<b>Net assets:</b>	
Beginning of year	<u>189,877</u>
End of year	<u><u>\$ 196,966</u></u>

See notes to financial statements.

## CITY OF SOMERSWORTH, NEW HAMPSHIRE

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

The accounting policies of the City of Somersworth, New Hampshire (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

##### A. Reporting Entity

The government is a municipal corporation governed by an elected Mayor and City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2007, it was determined that no entities met the required GASB-39 criteria of component units.

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

###### Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

###### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.



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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

General Fund - To account for the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Improvements Fund - To account for major capital projects including the construction of the new police station.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and

services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

Water Enterprise Fund - To account for the operation of a water treatment plant, City wells and water system.

Sewer Enterprise Fund - To account for the operation of a sewer treatment plant, pumping station and sewer lines.

Solid Waste Enterprise Fund - To account for the sale of City trash bags which pay for the costs of solid waste collection and disposal in the City.

A single private-purpose trust fund is used to account for educational scholarship trust arrangements, under which principal and investment income exclusively benefit individuals. Agency funds are used to account for funds held for others, specifically performance deposits, and other miscellaneous deposits held.

#### *D. Cash and Short-Term Investments*

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

#### *E. Investments*

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not

exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase. Investments are carried at fair value.

*F. Interfund Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate the portion not available for appropriation and not available as expendable financial resources.

*G. Inventories*

Inventories are valued at average cost. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

*H. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

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

*I. Compensated Absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

*J. Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

*K. Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

*L. Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

**2. Stewardship, Compliance and Accountability**

*A. Budgetary Information*

The City legally adopts a formal budget for the general, debt service and enterprise funds. The budget is originally compiled from requests of the various City departments. These requests are scrutinized and amended

by the City Manager, residents at a budgetary public hearing, and the Mayor and City Council. The final version of the budget is approved by the City Council.

The approved budget is subsequently reported to the State of New Hampshire on the statement of appropriation form in order to establish the current property tax rate.

The City cannot expend beyond the total annual appropriation. Each department has the authority to transfer budgetary items within their department, if necessary. However, only the City Council may approve transfers of budgetary items between departments and funds, as well as approve any additional appropriations during the year. Unencumbered appropriations lapse at year-end.

**B. Budgetary Basis**

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all transfers and supplemental appropriations.

**C. Budget/GAAP Reconciliation**

The budgetary data for the General and Proprietary Funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data. Adjustments to the general fund are shown below. Adjustments to the proprietary fund are mainly for the omission of depreciation expense which is not budgeted, and the inclusion of principal debt service and capital expenses which are budgeted expenses.

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

	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
<u>General Fund</u>		
Revenues/Expenditures (GAAP basis)	\$ 30,741,049	\$ 29,877,465
Other financing sources/uses (GAAP basis)	<u>57,067</u>	<u>228,611</u>
Subtotal (GAAP Basis)	30,798,116	30,106,076
		(continued)

(continued)

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Adjust tax revenue to accrual basis	77,682	-
To record use of fund balance	100,000	-
To reverse the effect of non- budgeted state contributions for police and fire retirement	( 279,498)	( 279,498)
Add end of year appropriations carryforwards to expenditures	<u>-</u>	<u>86,623</u>
Budgetary basis	\$ <u>30,696,300</u>	\$ <u>29,913,201</u>

**D. Excess of Expenditures Over Appropriations**

Expenditures exceeding appropriations during the current fiscal year were as follows:

General Fund:

Development services	\$ ( 51,033)
Fire	( 12,819)
School department	(207,150)

**E. Deficit Fund Equity**

The following funds had deficits as of June 30, 2007:

Special Revenue:

School Food Services	\$ (146,083)
----------------------	--------------

Debt Service:

High Street Sewer Improvement	\$ ( 62,602)
Route 108 Sewer Improvement	\$ (523,439)

**3. Cash and Short-Term Investments**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. RSA 48:16 limits "deposit in any on bank shall not at any time exceed the sum of its paid-up capital and surplus, exception that a city with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank." The City's deposit policy for custodial credit risk requires all deposits to be secured through a third party collateralization agreement at least equal to 102% of all cash deposits.

As of June 30, 2007, \$ 68,529 of the City's bank balance of \$ 14,327,816 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's name.

#### 4. Investments

##### A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Presented below is the actual rating as of year end for each investment of the City:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Mutual Funds	\$ <u>300,712</u>	N/A	\$ <u>-</u>	\$ <u>-</u>	\$ <u>300,712</u>
Total investments	\$ <u>300,712</u>		\$ <u>-</u>	\$ <u>-</u>	\$ <u>300,712</u>

##### B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

##### C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City does not have an investment in one issuer greater than 5% of total investments.

##### D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	<u>Not Applicable</u>
Mutual Funds	\$ <u>300,712</u>	\$ -	\$ -	\$ -	\$ -	\$ <u>300,712</u>
Total	\$ <u>300,712</u>	\$ -	\$ -	\$ -	\$ -	\$ <u>300,712</u>

**E. Foreign Currency Risk**

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City does not have policies for foreign currency risk.

**5. Property Taxes**

The City bills property taxes on a semi-annual basis, which are due in July and December. Property tax revenues are recognized in the fiscal year for which taxes have been levied (budgeted) to the extent that they become available, i.e., due or receivable within the current fiscal year and collected within the current period or within 60 days of year-end.

Property taxes collected before the due date and in advance of the year for which they are levied, are recorded as a prepaid tax liability, as they are intended to finance the subsequent year's operations.

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

The City annually budgets an amount (overlay for abatements) for resident and property tax abatements and refunds. All abatements and refunds are charged to overlay and are classified as a contra-tax revenue in the General Fund.

Taxes receivable, at June 30, 2007, consists of the following:

Unredeemed Taxes:	
2007	\$ 424,424
2006	146,697
2005	15,138
2004	5,275
2003	3,835
Prior years	3,946
Other taxes	<u>188</u>
Total	\$ <u>599,503</u>



## 6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts:

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 102,486	\$ -
Departmental	5,822	-
Utilities	-	19,035

## 7. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2007 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Advance To Other Funds</u>	<u>Advance From Other Funds</u>
General Fund	\$ 1,704,211	\$ 1,018,258	\$ 760,465	\$ -
Non-major Governmental Funds:				
Special Revenue Funds:				
School categorical revenue	104,337	119,855	-	-
School food services	23,708	-	-	146,083
School categorical non-grant	9,288	-	-	-
Student activities	18,754	-	-	-
Capital Project Funds:				
Capital improvement	-	38,584	-	-
Cable communications	12,701	-	-	-
Debt Service Funds:				
High Street sewer improvement	-	-	-	35,362
Route 108 sewer improvement	-	-	-	523,439
Enterprise Funds:				
Water enterprise	-	713,727	-	-
Sewer enterprise	-	150,869	-	-
Solid waste enterprise	-	-	-	55,581
Agency Fund:				
City escrow funds	<u>168,294</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	\$ <u>2,041,293</u>	\$ <u>2,041,293</u>	\$ <u>760,465</u>	\$ <u>760,465</u>

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 20,316	\$ -	\$ -	\$ 20,316
Machinery, equipment, and furnishings	3,650	717	(438)	3,929
Infrastructure*	<u>6,292</u>	<u>-</u>	<u>-</u>	<u>6,292</u>
Total capital assets, being depreciated	30,258	717	(438)	30,537
Less accumulated depreciation for:				
Buildings and improvements	(10,405)	( 696)	-	(11,101)
Machinery, equipment, and furnishings	( 2,414)	( 318)	346	( 2,386)
Infrastructure	<u>( 1,249)</u>	<u>( 116)</u>	<u>-</u>	<u>( 1,365)</u>
Total accumulated depreciation	(14,068)	(1,130)	346	(14,852)
Total capital assets, being depreciated, net	16,190	( 413)	( 92)	15,685
Capital assets, not being depreciated:				
Land	930	-	-	930
Construction in progress	<u>1,110</u>	<u>472</u>	<u>-</u>	<u>1,582</u>
Total capital assets, not being depreciated	<u>2,040</u>	<u>472</u>	<u>-</u>	<u>2,512</u>
Governmental activities capital assets, net, as restated*	<u>\$ 18,230</u>	<u>\$ 59</u>	<u>\$ ( 92)</u>	<u>\$ 18,197</u>

\* The beginning balances have been restated to reflect the City's retroactive capitalization of major general government infrastructure fixed assets for governmental activities, as required by GASB Statement 34.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 18,261	\$ -	\$ -	\$ 18,261
Machinery, equipment, and furnishings	2,289	-	-	2,289
Infrastructure	<u>9,055</u>	<u>-</u>	<u>-</u>	<u>9,055</u>
Total capital assets, being depreciated	29,605	-	-	29,605
Less accumulated depreciation for:				
Buildings and improvements	( 5,943)	( 602)	-	( 6,545)
Machinery, equipment, and furnishings	( 1,100)	( 86)	-	( 1,186)
Infrastructure	<u>( 3,468)</u>	<u>( 169)</u>	<u>-</u>	<u>( 3,637)</u>
Total accumulated depreciation	(10,511)	( 857)	-	(11,368)
Total capital assets, being depreciated, net	19,094	( 857)	-	18,237
Capital assets, not being depreciated:				
Land	501	-	-	501
Construction in progress	<u>567</u>	<u>6,045</u>	<u>-</u>	<u>6,612</u>
Total capital assets, not being depreciated	<u>1,068</u>	<u>6,045</u>	<u>-</u>	<u>7,113</u>
Business-type activities capital assets, net	<u>\$ 20,162</u>	<u>\$ 5,188</u>	<u>\$ -</u>	<u>\$ 25,350</u>

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

Governmental Activities:	
General government	\$ 87
Public safety	171
Highways and streets	204
School department	639
Culture and recreation	<u>29</u>
Total depreciation expense - governmental activities	\$ <u>1,130</u>
Business-Type Activities:	
Water	\$ 242
Sewer	<u>615</u>
Total depreciation expense - business-type activities	\$ <u>857</u>

**9. Accounts Payable**

Accounts payable represent additional 2007 expenditures paid in fiscal year 2008.

**10. Deferred Revenue**

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2007 receivable balances, except property taxes that are accrued for subsequent 60 day collections.

Deferred revenues in the Debt Service Fund represent uncollected hook-up fees in the Sewer Improvement Projects.

**11. Tax Refunds Payable**

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Board of Tax and Land Appeals.

**12. Notes Payable**

The City had the following notes outstanding at June 30, 2007:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2007</u>
State revolving loan - wastewater	3.49%	04/05/06	04/05/26	\$ 1,836,616
State revolving loan - water treatment	3.49%	04/05/06	04/05/26	5,000,000
Water treatment note	3.69%	05/28/07	11/28/07	<u>1,900,000</u>
Total				<u>\$ 8,736,616</u>

The following summarizes activity in notes payable during fiscal year 2007:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
State Revolving Fund Drinking Water	\$ 1,836,616	\$ -	\$ -	\$ 1,836,616
State Revolving Fund	5,000,000	-	-	5,000,000
Water treatment note	<u>-</u>	<u>1,900,000</u>	<u>-</u>	<u>1,900,000</u>
Total	<u>\$ 6,836,616</u>	<u>\$ 1,900,000</u>	<u>\$ -</u>	<u>\$ 8,736,616</u>

### 13. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2010. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2007:

2008	\$ 21,873
2009	21,873
2010	<u>21,873</u>
Total minimum lease payments	65,619
Less amount representing interest	<u>( 6,587)</u>
Present Value of Minimum Lease Payments	<u>\$ 59,032</u>

### 14. Long-Term Debt

#### A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Governmental activities:</u>	<u>Amount of Original Issue</u>	<u>Serial Maturities Through</u>	<u>Interest Rate (s)%</u>	<u>Amount</u>
1996 School bond	\$ 5,300,000	2016	5.625 - 5.75	\$ 2,650,000
* 1987 Sewer extension	2,800,000	2007	6.5	140,000
* 1990 Route 16 sewer	3,000,000	2009	6.7	450,000
1995 Middle School addition	2,000,000	2009	4.4	390,000
1998 Road improvement	1,000,000	2014	5.0	455,000
2000 High Street Corridor	1,300,000	2019	5.2	845,000
2000 Kindergarten	310,000	2019	5.2	195,000
2001 Plaza upgrade	475,000	2015	4.9	265,000
2001 New city hall	1,400,000	2015	4.9	985,000
2002 Landfill cleanup	750,000	2016	4.5	500,000
2002 New city hall	450,000	2016	4.5	300,000
2006 Capital improvements	1,395,355	2015	3.45	1,254,900
2007 Police station	3,426,127	2021	4.43	<u>3,426,127</u>
Total Governmental Bonds Payable				\$ <u>11,856,027</u>

<u>Business-type activities:</u>	<u>Amount of Original Issue</u>	<u>Serial Maturities Through</u>	<u>Interest Rate (s)%</u>	<u>Amount</u>
<u>Sewer:</u>				
Wastewater upgrade	\$ 10,324,627	2026	3.49	\$ <u>9,808,395</u>
Subtotal				9,808,395
<u>Water:</u>				
Water plant addition	2,650,000	2010	6.9 - 7.1	520,000
Water high lift project	650,000	2016	3.7275	433,333
Water upgrade	300,311	-	1.09	<u>241,526</u>
Subtotal				<u>1,194,859</u>
Total Business-type Bonds Payable				\$ <u>11,003,254</u>

\* This debt is intended to be funded by special assessments, however, is fully guaranteed by the City.

#### B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2007 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,376,127	\$ 571,873	\$ 1,948,000
2009	1,240,000	500,707	1,740,707
2010	1,240,000	434,543	1,674,543
2011	960,000	377,977	1,337,977
2012	960,000	331,277	1,291,277
2013 - 2017	4,429,900	941,670	5,371,570
2018 - 2022	<u>1,650,000</u>	<u>183,488</u>	<u>1,833,488</u>
Total	\$ <u>11,856,027</u>	\$ <u>3,341,535</u>	\$ <u>15,197,562</u>

The general fund and sewer fund have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2007:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 748,972	\$ 393,207	\$ 1,142,179
2009	749,620	363,708	1,113,328
2010	750,275	334,202	1,084,477
2011	750,917	304,689	1,055,606
2012	559,565	279,784	839,349
2013 - 2017	2,797,824	1,104,598	3,902,422
2018 - 2022	2,581,157	630,215	3,211,372
2023 - 2026	<u>2,064,924</u>	<u>180,061</u>	<u>2,244,985</u>
Total	\$ <u>11,003,254</u>	\$ <u>3,590,464</u>	\$ <u>14,593,718</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2007, the following changes occurred in long-term liabilities (in thousands):

	<u>Total Balance 7/1/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/07</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/07</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 9,630	\$ 3,426	\$ (1,200)	\$ 11,856	\$ (1,376)	\$ 10,480
Lease payable	77	-	( 18)	59	( 19)	40
Other:						
Landfill closure	2,375	-	( 125)	2,250	( 125)	2,125
Accrued employee benefits	<u>800</u>	<u>277</u>	<u>( 2)</u>	<u>1,075</u>	<u>( 21)</u>	<u>1,054</u>
Totals	\$ <u>12,882</u>	\$ <u>3,703</u>	\$ <u>(1,345)</u>	\$ <u>15,240</u>	\$ <u>(1,541)</u>	\$ <u>13,699</u>
	<u>Total Balance 7/1/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/07</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/07</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 11,767	\$ -	\$ ( 764)	\$ 11,003	\$ ( 749)	\$ 10,254
Notes payable	6,837	-	-	6,837	-	6,837
Advance from other funds	-	56	-	56	-	56
Other:						
Accrued employee benefits	<u>35</u>	<u>-</u>	<u>-</u>	<u>35</u>	<u>-</u>	<u>35</u>
Totals	\$ <u>18,639</u>	\$ <u>56</u>	\$ <u>( 764)</u>	\$ <u>17,931</u>	\$ <u>( 749)</u>	\$ <u>17,182</u>

The general fund will be responsible for funding the liabilities associated with landfill closure and governmental accrued employee benefits (compensated absences).

**D. Other Debt**

The United States Environmental Protection Agency (EPA) required the City to reduce the effluent emissions of the City's waste water treatment plant. To comply, the City redesigned the sewer treatment plant. Construction of the redesign began in 2000, and is 95% complete as of June 30, 2007. The City intends to finance construction costs as follows:

	<u>Estimate</u>	<u>Actual as of June 30, 2007</u>
State Revolving funds		
Loan 1 *	\$ 12,000,000	\$ 10,324,627
Loan 2	-	741,676
EPA matching grant **		
Grant 1	447,100	-
Grant 2	<u>347,200</u>	<u>-</u>
Total	\$ <u>12,794,300</u>	\$ <u>11,066,303</u>

\* The State approved total funding of \$ 12,000,000, which was divided into two loans. The first loan closed in 2006, and the City began making payments on the State loan of \$ 10,324,627, of which \$ 9,808,396 remains outstanding.

\*\* The Environmental Protection Agency has awarded two matching grants. The City intends to apply the state revolving funds towards their 45% portion of the match at \$ 365,810 for grant 1 and \$ 284,100 for grant 2.

**15. Landfill Closure and Postclosure Care Costs**

State and Federal laws and regulations require the City to place a final cover on its closed landfill site and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The \$ 2,250,000 reported as landfill closure and postclosure care liability at June 30, 2007 represents that cumulative amount reported to date based on the use of 100% of the estimated capacity of the landfill. This amount is based on what it would cost to perform all closure and postclosure care in 2007. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

**16. Restricted Net Assets**

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

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original

restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

## 17. Reserves and Designations of Fund Equity

"Reserves" of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2007:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Perpetual Permanent Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

Reserved for Advance - Represents receivables related to internal long-term loans.

## 18. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how undesignated fund balance is reported in accordance with the budgetary basis for reporting for the State of New Hampshire for tax rate setting purposes. The major difference is the State of New Hampshire considers revenues in connection with property tax receivables to be available to liquidate liabilities when billed rather than received.

The following summarizes the specific differences between GAAP basis and statutory basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ 1,040,095
Deferred revenue	551,713
Reserve for advance	<u>760,465</u>
Tax Rate Setting Balance	\$ <u>2,352,273</u>



## 19. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

Water Filtration Plant Upgrade - The City has been ordered by the New Hampshire Department of Environmental Services (NH DES) to upgrade its water filtration plant to NH DES standards. The estimated cost is \$ 6.9 million, for which the City authorized borrowing on March 6, 2006. The City anticipates the expansion to be completed within the next 2 years.

Sewer Treatment Plant Capacity - The City has been required by the U.S. Environmental Protection Agency to increase its sewer treatment plant capacity. The estimated cost is \$ 12 million, for which the City authorized borrowing on November 17, 2003. The City anticipates the expansion to be completed within the next 2 years.

## 20. Pension Plan

The City follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds.

### A. Plan Description

The City contributes to the New Hampshire Retirement System (the "System"), a cost-sharing, multiple-employer defined benefit pension plan administered by the retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Revised Statutes Annotated 100-A:41-a of New Hampshire Law assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the New Hampshire Retirement System at 4 Chenell Drive, Concord, New Hampshire 03301-8509.

### B. Funding Policy

Plan members are required to contribute between 5% and 9.30% of annual covered compensation to the pension plan. The City makes

annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A: 16, and range from 3.70% - 15.92% of covered compensation. The City's contributions to the System for the years ended June 30, 2007, 2006, and 2005 were \$ 341,690, \$ 296,712, and \$ 270,314, respectively, which were equal to its annual required contributions for each of these years.

## 21. **Risk Management**

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

## 22. **Beginning Fund Equity/Net Assets Restatement**

The beginning (July 1, 2006) fund equity/net assets of the City have been restated as follows:

### **Government-Wide Financial Statements:**

	Governmental <u>Activities</u>
Net assets, as previously reported	\$ 4,037,680
Retroactive reporting of infrastructure fixed assets	<u>3,329,757</u>
Net assets, as restated	\$ <u>7,367,437</u>