

CITY OF SOMERSWORTH, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2009

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
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
Proprietary Funds:	
Statement of Net Assets	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets	18
Statement of Cash Flows	19
Fiduciary Funds:	
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets	21
Notes to Financial Statements	22
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress	43



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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, 2009, 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.

As discussed in Note 2 to the financial statements, management recorded a liability for Other Post Employment Benefits (OPEB) in governmental and business type activities, based on the alternative measurement method, which is only allowable for communities with less than 100 employees. The City of Somersworth, having over 100 employees, cannot rely on this method and must use an actuary to calculate the OPEB liability. The differences between the calculated amount reported on the alternative measurement method and that determined by an actuary cannot be estimated and therefore the impact on the City's government-wide fund balance cannot be determined.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, the financial

Additional Offices:

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position of the governmental activities, business type activities, and each major enterprise fund as of June 30, 2009 and the changes in financial position and cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund, and the aggregate remaining fund information of the City of Somersworth, New Hampshire, as of June 30, 2009, and the respective changes in financial position 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, and the supplementary information appearing on page 43, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management 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 March 15, 2010 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
March 15, 2010

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, 2009. 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 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 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*.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 15,546,248 (i.e., net assets), a change of \$ (727,258) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 3,012,642, a change of \$ 1,158,989 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ (258,874), a change of \$ (874,979) in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 26,718,225, a change of \$ (859,456) 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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 13,163	\$ 11,947	\$ (554)	\$ 1,581	\$ 12,609	\$ 13,528
Capital assets	<u>21,015</u>	<u>21,852</u>	<u>24,245</u>	<u>25,431</u>	<u>45,260</u>	<u>47,283</u>
Total assets	34,178	33,799	23,691	27,012	57,869	60,811
Long-term liabilities outstanding	14,218	13,583	18,029	19,980	32,247	33,563
Other liabilities	<u>9,687</u>	<u>9,851</u>	<u>389</u>	<u>1,124</u>	<u>10,076</u>	<u>10,975</u>
Total liabilities	23,905	23,434	18,418	21,104	42,323	44,538
Net assets:						
Invested in capital assets, net	10,846	11,021	7,287	7,570	18,133	18,591
Restricted	107	17	-	-	107	17
Unrestricted	<u>(680)</u>	<u>(673)</u>	<u>(2,014)</u>	<u>(1,662)</u>	<u>(2,694)</u>	<u>(2,335)</u>
Total net assets	\$ <u>10,273</u>	\$ <u>10,365</u>	\$ <u>5,273</u>	\$ <u>5,908</u>	\$ <u>15,546</u>	\$ <u>16,273</u>

CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program revenues:						
Charges for services	\$ 937	\$ 1,104	\$ 3,580	\$ 3,151	\$ 4,517	\$ 4,255
Operating grants and contributions	10,589	10,329	-	-	10,589	10,329
Capital grants and contributions	154	199	-	-	154	199
General revenues:						
Taxes	20,779	19,628	-	-	20,779	19,628
Motor vehicle registration fees	1,315	1,393	-	-	1,315	1,393
Intergovernmental	988	944	604	131	1,592	1,075
Interest	179	299	1	80	180	379
Miscellaneous	<u>142</u>	<u>166</u>	<u>-</u>	<u>-</u>	<u>142</u>	<u>166</u>
Total revenues	<u>35,083</u>	<u>34,062</u>	<u>4,185</u>	<u>3,362</u>	<u>39,268</u>	<u>37,424</u>
Expenses:						
General government	1,679	1,514	-	-	1,679	1,514
Public safety	4,787	1,360	-	-	4,787	1,360
Highways and streets	2,887	5,115	-	-	2,887	5,115
Health and welfare	218	221	-	-	218	221
Culture and recreation	730	575	-	-	730	575
School department	22,278	21,373	-	-	22,278	21,373
Interest	547	752	-	-	547	752
County assessment	2,179	1,979	-	-	2,179	1,979
Other	5	12	-	-	5	12
Water operations	-	-	2,047	1,509	2,047	1,509
Sewer operations	-	-	2,286	2,242	2,286	2,242
Solid waste operations	-	-	<u>387</u>	<u>378</u>	<u>387</u>	<u>378</u>
Total expenses	<u>35,310</u>	<u>32,901</u>	<u>4,720</u>	<u>4,129</u>	<u>40,030</u>	<u>37,030</u>
Change in net assets before transfers	(227)	1,161	(535)	(767)	(762)	394
Transfers in (out)	<u>135</u>	<u>199</u>	(100)	(154)	<u>35</u>	<u>45</u>
Change in net assets	(92)	1,360	(635)	(921)	(727)	439
Net assets - beginning of year, as restated	<u>10,365</u>	<u>9,005</u>	<u>5,908</u>	<u>6,829</u>	<u>16,273</u>	<u>15,834</u>
Net assets - end of year	<u>\$ 10,273</u>	<u>\$ 10,365</u>	<u>\$ 5,273</u>	<u>\$ 5,908</u>	<u>\$ 15,546</u>	<u>\$ 16,273</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 \$ 15,546,248, a change of \$ (727,258) from the prior year.

The largest portion of net assets, \$ 18,133,530 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.

An additional portion of net assets, \$ 107,405, represents resources that are subject to external restrictions on how they may be used. The remaining balance represents an unrestricted net asset deficit of \$ (2,694,687).

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (92,470). Key elements of this change are as follows:

	<u>Governmental Activities</u>
General fund operating results, as disclosed in Section D	\$ 172,067
Nonmajor funds - accrual basis	(349,632)
Excess bond principal maturities over depreciation	120,433
Other GAAP accruals	<u>(35,338)</u>
Total	\$ (<u>92,470</u>)

Business-Type Activities. Business-type activities for the year resulted in a change in net assets of \$ (634,788). Key elements of this change are as follows:

Water Fund	\$ (43,652)
Sewer Fund	(601,673)
Solid Waste Fund	<u>10,537</u>
Total	\$ (<u>634,788</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 \$ 3,012,642 , a change of \$ 1,158,989 in comparison with the prior year. Key elements of this change are as follows:

	<u>Governmental Funds</u>
General fund operating results, as disclosed below	\$ 172,067
Nonmajor fund operating results	<u>986,922</u>
Total	\$ <u>1,158,989</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 \$ (258,874), while total fund balance was \$ 2,924,764. 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.

The fund balance of the general fund changed by \$ 172,067 during the current fiscal year. Key factors in this change are as follows:

	General Fund
Budget in excess of revenues	\$(63,329)
Budget expenditures in excess of actual	462,331
Property tax collections exceeding (less than) net tax levy	(152,822)
Use of fund balance as funding source	(100,000)
Excess of current year encumbrances over prior year	<u>25,887</u>
Total	<u>\$ 172,067</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 \$ (2,014,296), a change of \$ (351,879) 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 jurisdictions overseeing the permitting of the Water and Sewer Treatment Facilities. To that end, the City Council enacted a series of rate increases on the Water rates, effective July 1, 2007, that will more than double rates over four years, and approved a plan to increase the Sewer rates over four years starting July of 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 consisted of reappropriations between budget lines, but did not change the overall original appropriation amount.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 45,260,181 (net of accumulated depreciation), a change of \$ (2,023,509) 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 debt outstanding was \$ 26,718,225, 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.

G. ECONOMIC FACTORS

The City of Somersworth instituted a series of rate increases for both the Water and Sewer utilities beginning in July 2007. Based on current revenue and expenditure projections, the rate structure that will be in place on July 1, 2010 will be sufficient to reverse the annual operating losses that have occurred, and over time address the accumulated deficit that currently exists.

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, 2009

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 9,973,550	\$ -	\$ 9,973,550
Investments	127,197	-	127,197
Receivables, net of allowance for uncollectibles:			
Property taxes	893,572	-	893,572
Departmental	116,614	286,982	403,596
Intergovernmental	60,837	1,018,532	1,079,369
Inventory	-	107,896	107,896
Other assets	19,034	-	19,034
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Special assessments	5,217	-	5,217
Internal balances	1,967,474	(1,967,474)	-
Capital assets:			
Land and construction in progress	7,002,918	500,895	7,503,813
Other capital assets, net of accumulated depreciation	<u>14,011,702</u>	<u>23,744,666</u>	<u>37,756,368</u>
TOTAL ASSETS	34,178,115	23,691,497	57,869,612
LIABILITIES			
Current:			
Manifest payable	410,237	103,174	513,411
Accounts payable	546,666	-	546,666
Accrued liabilities	323,764	284,908	608,672
Prepaid taxes	8,290,028	-	8,290,028
Due to fiduciary funds	114,671	-	114,671
Other current liabilities	1,880	895	2,775
Current portion of long-term liabilities:			
Bonds payable	1,373,545	1,026,305	2,399,850
Lease payable	20,736	-	20,736
Other liabilities	336,712	-	336,712
Noncurrent:			
Bonds payable, net of current portion	9,204,900	15,113,475	24,318,375
OPEB liability	427,780	16,528	444,308
Notes payable	-	1,836,616	1,836,616
Lease payable, net of current portion	132,500	-	132,500
Other liabilities, net of current portion	<u>2,721,848</u>	<u>36,196</u>	<u>2,758,044</u>
TOTAL LIABILITIES	23,905,267	18,418,097	42,323,364
NET ASSETS			
Invested in capital assets, net of related debt	10,845,834	7,287,696	18,133,530
Restricted for:			
State and federal grants	(72,374)	-	(72,374)
Permanent funds:			
Nonexpendable	162,556	-	162,556
Expendable	17,223	-	17,223
Unrestricted	<u>(680,391)</u>	<u>(2,014,296)</u>	<u>(2,694,687)</u>
TOTAL NET ASSETS	\$ <u>10,272,848</u>	\$ <u>5,273,400</u>	\$ <u>15,546,248</u>

See notes to financial statements.

CITY OF SOMERSWORTH, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 1,678,859	\$ 101,845	\$ 13,854	\$ -	\$ (1,563,160)	\$ -	\$ (1,563,160)
Public safety	4,786,893	61,874	277,472	-	(4,447,547)	-	(4,447,547)
Highways and streets	2,887,181	240,852	271,727	-	(2,374,602)	-	(2,374,602)
Health and welfare	217,637	9,858	-	-	(207,779)	-	(207,779)
Culture and recreation	730,400	100,601	2,925	-	(626,874)	-	(626,874)
School department	22,278,303	421,915	10,022,951	153,900	(11,679,537)	-	(11,679,537)
Interest	547,030	-	-	-	(547,030)	-	(547,030)
County assessments	2,178,639	-	-	-	(2,178,639)	-	(2,178,639)
Other	5,499	-	-	-	(5,499)	-	(5,499)
Total Governmental Activities	35,310,441	936,945	10,588,929	153,900	(23,630,667)	-	(23,630,667)
Business-Type Activities:							
Water services	2,047,448	1,624,904	-	-	-	(422,544)	(422,544)
Sewer services	2,286,063	1,557,629	-	-	-	(728,434)	(728,434)
Solid waste services	386,889	397,426	-	-	-	10,537	10,537
Total Business-Type Activities	4,720,400	3,579,959	-	-	-	(1,140,441)	(1,140,441)
Total	\$ 40,030,841	\$ 4,516,904	\$ 10,588,929	\$ 153,900	(23,630,667)	(1,140,441)	(24,771,108)
General Revenues and Transfers:							
Taxes					20,779,312	-	20,779,312
Other revenues not restricted to specific programs:							
Motor vehicle registration fees					1,315,218	-	1,315,218
Intergovernmental					988,604	604,580	1,593,184
Interest					178,749	1,073	179,822
Miscellaneous					141,814	-	141,814
Transfers, net					134,500	(100,000)	34,500
Total general revenues and transfers					23,538,197	505,653	24,043,850
Change in Net Assets					(92,470)	(634,788)	(727,258)
Net Assets:							
Beginning of year					10,365,318	5,908,188	16,273,506
End of year					\$ 10,272,848	\$ 5,273,400	\$ 15,546,248

See notes to financial statements.

CITY OF SOMERSWORTH, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

ASSETS	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash and short-term investments	\$ 9,271,507	\$ 702,043	\$ 9,973,550
Investments	-	127,197	127,197
Receivables:			
Property taxes	1,010,203	-	1,010,203
Departmental	122,754	-	122,754
Intergovernmental	-	60,837	60,837
Due from other funds	263,231	109,721	372,952
Advance from other funds	2,766,652	-	2,766,652
Other assets	<u>19,034</u>	<u>-</u>	<u>19,034</u>
TOTAL ASSETS	\$ <u>13,453,381</u>	\$ <u>999,798</u>	\$ <u>14,453,179</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Manifest payable	\$ 340,058	\$ 70,179	\$ 410,237
Accounts payable	548,546	-	548,546
Deferred revenues	904,925	-	904,925
Due to other funds	445,060	42,563	487,623
Advance to other funds	-	799,178	799,178
Taxes collected in advance	<u>8,290,028</u>	<u>-</u>	<u>8,290,028</u>
TOTAL LIABILITIES	10,528,617	911,920	11,440,537
Fund Balances:			
Reserved for:			
Expenditures	100,000	-	100,000
Encumbrances	316,986	-	316,986
Perpetual permanent funds	-	162,556	162,556
Advance	2,766,652	-	2,766,652
Unreserved:			
Undesignated, reported in:			
General fund (see Note 19)	(258,874)	-	(258,874)
Special revenue funds	-	440,691	440,691
Capital project funds	-	162,895	162,895
Debt service funds	-	(695,487)	(695,487)
Permanent Funds	<u>-</u>	<u>17,223</u>	<u>17,223</u>
TOTAL FUND BALANCES	<u>2,924,764</u>	<u>87,878</u>	<u>3,012,642</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>13,453,381</u>	\$ <u>999,798</u>	\$ <u>14,453,179</u>

See notes to financial statements.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2009

Total governmental fund balances	\$ 3,012,642
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	21,014,620
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	787,371
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(323,764)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(14,218,021)</u>
Net assets of governmental activities	<u><u>\$ 10,272,848</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, 2009

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Taxes	\$ 20,545,136	\$ -	\$ 20,545,136
Licenses and permits	1,390,333	-	1,390,333
Intergovernmental	10,275,898	1,375,965	11,651,863
Charges for services	485,101	404,200	889,301
Interest income	71,438	107,311	178,749
Other revenues:			
Contributions	13,835	65,735	79,570
Other	<u>131,756</u>	<u>10,058</u>	<u>141,814</u>
Total Revenues	<u>32,913,497</u>	<u>1,963,269</u>	<u>34,876,766</u>
Expenditures:			
Current:			
General government	1,461,152	107,609	1,568,761
Public safety	4,584,618	80,466	4,665,084
Highways and streets	2,025,536	198,112	2,223,648
Health and welfare	216,493	-	216,493
Culture and recreation	544,289	189,371	733,660
School department	20,120,313	1,677,199	21,797,512
Other	-	5,500	5,500
Debt service:			
Principal	1,090,000	150,000	1,240,000
Interest	546,337	15,188	561,525
Intergovernmental:			
Assessments	<u>2,178,639</u>	<u>-</u>	<u>2,178,639</u>
Total Expenditures	<u>32,767,377</u>	<u>2,423,445</u>	<u>35,190,822</u>
Excess (deficiency) of revenues over expenditures	146,120	(460,176)	(314,056)
Other Financing Sources (Uses):			
Transfers in	285,747	359,800	645,547
Transfers out	(259,800)	(251,247)	(511,047)
Proceeds from long-term notes	<u>-</u>	<u>1,338,545</u>	<u>1,338,545</u>
Total Other Financing Sources (Uses)	<u>25,947</u>	<u>1,447,098</u>	<u>1,473,045</u>
Net change in fund balances	172,067	986,922	1,158,989
Fund Balances, at Beginning of Year	<u>2,752,697</u>	<u>(899,044)</u>	<u>1,853,653</u>
Fund Balances, at End of Year	<u>\$ 2,924,764</u>	<u>\$ 87,878</u>	<u>\$ 3,012,642</u>

See notes to financial statements.

CITY OF SOMERSWORTH, NEW HAMPSHIRE

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

FOR THE YEAR ENDED JUNE 30, 2009

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 1,158,989

- 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:

Capital outlay purchases, net of disposals	321,413
Depreciation	(1,139,225)
Loss on disposal	(20,035)

- 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.

233,794

- 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:

Repayments of bonded debt	1,240,000
Issuance of bond debt	(1,338,545)
Repayments of leased debt	19,659
Issuance of new leased debt	(132,500)

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.

14,495

- Some expenses reported in the Statement of Activities, such as compensated absences, landfill liabilities and OPEB liability do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

(450,515)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (92,470)

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, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and other sources:				
Taxes	\$ 20,610,690	\$ 20,610,690	\$ 20,697,958	\$ 87,268
Licenses and permits	1,607,750	1,607,750	1,390,333	(217,417)
Intergovernmental	9,640,358	9,640,358	9,774,769	134,411
Charges for services	496,660	496,660	407,411	(89,249)
Interest income	120,000	120,000	71,438	(48,562)
Other revenues	494,135	494,135	313,108	(181,027)
Transfers in	34,500	34,500	285,747	251,247
Use of fund balance	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total Revenues and Other Sources	33,104,093	33,104,093	33,040,764	(63,329)
Expenditures and other uses:				
Current:				
Elected leadership	112,003	112,003	109,926	2,077
City management	318,335	318,335	285,772	32,563
Development services	914,052	914,052	893,031	21,021
Police	2,669,203	2,638,493	2,581,112	57,381
Fire	1,525,395	1,623,697	1,623,424	273
Finance and administration	1,129,317	1,129,317	1,054,960	74,357
Public works & utilities	1,930,413	1,939,968	1,817,624	122,344
School	20,622,513	20,622,513	20,503,428	119,085
Other	2,461,219	2,384,072	2,343,198	40,874
Capital outlay	168,917	168,917	144,682	24,235
Debt service	1,031,848	1,031,848	1,024,805	7,043
Other financing uses:				
Transfers out	<u>220,878</u>	<u>220,878</u>	<u>259,800</u>	<u>(38,922)</u>
Total Expenditures and Other Uses	<u>33,104,093</u>	<u>33,104,093</u>	<u>32,641,762</u>	<u>462,331</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>399,002</u>	\$ <u>399,002</u>

See notes to financial statements.

CITY OF SOMERSWORTH, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	
<u>ASSETS</u>				
Current:				
User fees, net of allowance for uncollectibles	\$ 129,829	\$ 146,763	\$ 10,390	\$ 286,982
Intergovernmental receivables	-	1,018,532	-	1,018,532
Inventory	101,330	-	6,566	107,896
Total current assets	231,159	1,165,295	16,956	1,413,410
Noncurrent:				
Land and construction in progress	144,510	356,385	-	500,895
Other capital assets, net of accumulated depreciation	8,132,415	15,612,251	-	23,744,666
Total noncurrent assets	8,276,925	15,968,636	-	24,245,561
TOTAL ASSETS	8,508,084	17,133,931	16,956	25,658,971
<u>LIABILITIES</u>				
Current:				
Manifest payable	28,533	44,458	30,183	103,174
Accrued and other liabilities	111,400	173,508	-	284,908
Other liabilities	895	-	-	895
Bonds payable	510,074	516,231	-	1,026,305
Total current liabilities	650,902	734,197	30,183	1,415,282
Noncurrent:				
Notes payable	-	1,836,616	-	1,836,616
Advance from other funds	499,471	1,430,941	37,062	1,967,474
Bonds payable, net of current portion	6,853,774	8,259,701	-	15,113,475
OPEB liability	10,393	6,135	-	16,528
Other	33,359	2,837	-	36,196
Total noncurrent liabilities	7,396,997	11,536,230	37,062	18,970,289
TOTAL LIABILITIES	8,047,899	12,270,427	67,245	20,385,571
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	913,077	6,374,619	-	7,287,696
Unrestricted	(452,892)	(1,511,115)	(50,289)	(2,014,296)
TOTAL NET ASSETS	\$ <u>460,185</u>	\$ <u>4,863,504</u>	\$ <u>(50,289)</u>	\$ <u>5,273,400</u>

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, 2009

	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	
Operating Revenues:				
Charges for services	\$ 1,433,451	\$ 1,550,318	\$ 397,426	\$ 3,381,195
Other	<u>191,453</u>	<u>7,311</u>	<u>-</u>	<u>198,764</u>
Total Operating Revenues	1,624,904	1,557,629	397,426	3,579,959
Operating Expenses:				
Operating expenses	1,058,092	1,302,799	386,889	2,747,780
Depreciation	540,162	645,502	-	1,185,664
Other	<u>156,266</u>	<u>19,658</u>	<u>-</u>	<u>175,924</u>
Total Operating Expenses	<u>1,754,520</u>	<u>1,967,959</u>	<u>386,889</u>	<u>4,109,368</u>
Operating Income (Loss)	(129,616)	(410,330)	10,537	(529,409)
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	377,819	226,761	-	604,580
Interest income	1,073	-	-	1,073
Interest expense	<u>(292,928)</u>	<u>(318,104)</u>	<u>-</u>	<u>(611,032)</u>
Total Nonoperating Revenues (Expenses), Net	<u>85,964</u>	<u>(91,343)</u>	<u>-</u>	<u>(5,379)</u>
Income (Loss) Before Transfers	(43,652)	(501,673)	10,537	(534,788)
Transfers:				
Transfers in	105,702	-	-	105,702
Transfers out	<u>(105,702)</u>	<u>(100,000)</u>	<u>-</u>	<u>(205,702)</u>
Total Transfers	<u>-</u>	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
Change in Net Assets	(43,652)	(601,673)	10,537	(634,788)
Net Assets at Beginning of Year	<u>503,837</u>	<u>5,465,177</u>	<u>(60,826)</u>	<u>5,908,188</u>
Net Assets at End of Year	<u>\$ 460,185</u>	<u>\$ 4,863,504</u>	<u>\$ (50,289)</u>	<u>\$ 5,273,400</u>

See notes to financial statements.

CITY OF SOMERSWORTH, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities Enterprise Funds			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 1,566,913	\$ 1,489,771	\$ 406,944	\$ 3,463,628
Payments to vendors and employees	<u>(1,418,311)</u>	<u>(1,301,739)</u>	<u>(406,944)</u>	<u>(3,126,994)</u>
Net Cash Provided By (Used For) Operating Activities	148,602	188,032	-	336,634
<u>Cash Flows From Noncapital Financing Activities:</u>				
Due to other funds	(529,946)	-	-	(529,946)
Advance from other funds	499,471	463,412	-	962,883
Transfer to other funds	-	(100,000)	-	(100,000)
Intergovernmental grant revenue	<u>377,819</u>	<u>226,761</u>	<u>-</u>	<u>604,580</u>
Net Cash (Used For) Noncapital Financing Activities	347,344	590,173	-	937,517
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	-	893	-	893
Principal payments on bonds and notes	(441,770)	(516,231)	-	(958,001)
Interest expense	(293,823)	(318,104)	-	(611,927)
Proceeds from state revolving loan	<u>-</u>	<u>55,237</u>	<u>-</u>	<u>55,237</u>
Net Cash (Used For) Capital and Related Financing Activities	(735,593)	(778,205)	-	(1,513,798)
<u>Cash Flows From Investing Activities:</u>				
Investment income	<u>1,073</u>	<u>-</u>	<u>-</u>	<u>1,073</u>
Net Cash (Used For) Investing Activities	<u>1,073</u>	<u>-</u>	<u>-</u>	<u>1,073</u>
Net Change in Cash and Short-Term Investments	(238,574)	-	-	(238,574)
Cash and Short Term Investments, Beginning of Year	<u>238,574</u>	<u>-</u>	<u>-</u>	<u>238,574</u>
Cash and Short Term Investments, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ (129,616)	\$ (410,330)	\$ 10,537	\$ (529,409)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	540,162	645,502	-	1,185,664
Changes in assets and liabilities:				
User fees	(57,991)	(67,858)	9,518	(116,331)
Inventory	(23,835)	-	14,130	(9,705)
Due from other funds	-	-	(3,542)	(3,542)
Accounts payable	(124,519)	13,091	(23,414)	(134,842)
Accrued liabilities	(61,169)	1,492	-	(59,677)
Other	<u>5,570</u>	<u>6,135</u>	<u>(7,229)</u>	<u>4,476</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 148,602</u>	<u>\$ 188,032</u>	<u>\$ -</u>	<u>\$ 336,634</u>

See notes to financial statements.

CITY OF SOMERSWORTH, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>		
Cash and short term investments	\$ 57,734	\$ 459,572
Investments	139,668	-
Due from other funds	<u>-</u>	<u>114,671</u>
Total Assets	197,402	574,243
<u>LIABILITIES AND NET ASSETS</u>		
Other liabilities:		
Escrow deposits held	<u>-</u>	<u>574,243</u>
Total Liabilities	<u>-</u>	<u>574,243</u>
<u>NET ASSETS</u>		
Total net assets held in trust	\$ <u><u>197,402</u></u>	\$ <u><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, 2009

	<u>Private Purpose Trust Funds</u>
Additions:	
Investment income (loss)	\$ (1,298)
Contributions and donations	<u>340</u>
Total additions	(958)
Deductions:	
Miscellaneous:	
Bequests and expenses	<u>300</u>
Total deductions	<u>300</u>
Net increase (decrease)	(1,258)
Net assets:	
Beginning of year	<u>198,660</u>
End of year	<u>\$ 197,402</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 2009, 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:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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:

- The *water enterprise fund* is used to account for the operation of a water treatment plant, City wells and water system.
- The *sewer enterprise fund* is used to account for the operation of a sewer treatment plant, pumping station and sewer lines.
- The *solid waste enterprise fund* is used to account for the sale of City trash bags which pay for the costs of solid waste collection and disposal in the City.

Private-purpose trust funds are 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 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. Departures from Generally Accepted Accounting Principles

The departure of the financial statements from generally accepted accounting principles is as follows:

- The City has recorded a liability for Other Post Employment Benefits (OPEB) based on the alternative measurement method, which

per accounting principles generally accepted in the United States of America is only allowable for communities with less than 100 employees. The City of Somersworth does not qualify to use this method, as it has over 100 employees.

3. 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.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 32,913,497	\$ 32,767,377
Other financing sources/uses (GAAP basis)	<u>285,747</u>	<u>259,800</u>
Subtotal (GAAP Basis)	33,199,244	33,027,177
Adjust tax revenue to accrual basis	152,822	-
To record use of fund balance	100,000	-
To reverse the effect of non- budgeted state contributions for police and fire retirement	(411,302)	(411,302)
Reverse prior year appropriations carryforwards	-	(291,099)
Add end of year appropriation carryforwards to expenditures	<u>-</u>	<u>316,986</u>
Budgetary basis	<u>\$ 33,040,764</u>	<u>\$ 32,641,762</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2009:

Special Revenue:	
School Food Services	\$ (112,030)
Enterprise Funds:	
Solid Waste	\$ (50,289)
Debt Service:	
High Street Sewer Improvement	\$ (53,209)
Route 108 Sewer Improvement	\$ (642,278)

Some of these deficits will be reduced by future grant revenue and bonding.

4. 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, 2009, none of the City's bank balance of \$ 10,059,275 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's name.

5. 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>
Equity Investments	\$ 46,099	N/A	\$ -	\$ -	\$ 46,099
Mutual Funds	<u>220,766</u>	N/A	<u>-</u>	<u>-</u>	<u>220,766</u>
Total investments	\$ <u>266,865</u>		\$ <u>-</u>	\$ <u>-</u>	\$ <u>266,865</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. The City does not have a policy for custodial credit risk. None of the investments held by the City are exposed to custodial credit risk.

C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

- \$ 220,766 invested in Columbia core bond fund class 2 shares

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>Not Applicable</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>		
Equity Investments	\$ 46,099	\$ -	\$ -	\$ -	\$ -	\$ 46,099	
Mutual Funds	<u>220,766</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>220,766</u>	
Total	\$ <u>266,865</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>266,865</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.

6. 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, 2009, consists of the following:

Unredeemed Taxes:	
2009	\$ 670,960
2008	250,543
2007	51,117
2006	16,392
2005	11,765
Prior years	<u>9,426</u>
Total	\$ <u>1,010,203</u>

7. 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	\$ 116,631	\$ -
Departmental	6,140	-
Utilities	-	30,955

8. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2009.

9. 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, 2009 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	\$ 263,231	\$ 445,060	\$ 2,766,652	\$ -
Non-major Governmental Funds:				
Special Revenue Funds:				
School categorical revenue	44,583	-	-	-
School food services	-	-	-	103,691
School categorical non-grant	47,040	-	-	-
State grants	-	3,979	-	-
Capital Project Funds:				
Capital improvement	-	38,584	-	-
Cable communications	18,098	-	-	-
Debt Service Funds:				
High Street sewer improvement	-	-	-	53,209
Route 108 sewer improvement	-	-	-	642,278
Enterprise Funds:				
Water enterprise	-	-	-	499,471
Sewer enterprise	-	-	-	1,430,941
Solid waste enterprise	-	-	-	37,062
Agency Fund:				
City escrow funds	<u>114,671</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	\$ <u>487,623</u>	\$ <u>487,623</u>	\$ <u>2,766,652</u>	\$ <u>2,766,652</u>

During 2009, the City transferred \$ 34,500 of budgeted, forfeited escrow balances from the agency funds to the general fund.

10. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 20,344	\$ 108	\$ -	\$ 20,452
Machinery, equipment, and furnishings	4,046	311	(235)	4,122
Infrastructure	<u>6,292</u>	<u>25</u>	<u>-</u>	<u>6,317</u>
Total capital assets, being depreciated	30,682	444	(235)	30,891
Less accumulated depreciation for:				
Buildings and improvements	(11,770)	(673)	-	(12,443)
Machinery, equipment, and furnishings	(2,704)	(349)	215	(2,838)
Infrastructure	<u>(1,481)</u>	<u>(117)</u>	<u>-</u>	<u>(1,598)</u>
Total accumulated depreciation	<u>(15,955)</u>	<u>(1,139)</u>	<u>215</u>	<u>(16,879)</u>
Total capital assets, being depreciated, net	14,727	(695)	(20)	14,012
Capital assets, not being depreciated:				
Land	2,351	50	-	2,401
Construction in progress	<u>4,774</u>	<u>-</u>	<u>(173)</u>	<u>4,601</u>
Total capital assets, not being depreciated	<u>7,125</u>	<u>50</u>	<u>(173)</u>	<u>7,002</u>
Governmental activities capital assets, net	<u>\$ 21,852</u>	<u>\$ (645)</u>	<u>\$ (193)</u>	<u>\$ 21,014</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 18,261	\$ 7,551	\$ -	\$ 25,812
Machinery, equipment, and furnishings	2,289	-	(34)	2,255
Infrastructure	<u>9,055</u>	<u>-</u>	<u>-</u>	<u>9,055</u>
Total capital assets, being depreciated	29,605	7,551	(34)	37,122
Less accumulated depreciation for:				
Buildings and improvements	(7,147)	(940)	-	(8,087)
Machinery, equipment, and furnishings	(1,271)	(76)	33	(1,314)
Infrastructure	<u>(3,807)</u>	<u>(170)</u>	<u>-</u>	<u>(3,977)</u>
Total accumulated depreciation	<u>(12,225)</u>	<u>(1,186)</u>	<u>33</u>	<u>(13,378)</u>
Total capital assets, being depreciated, net	17,380	6,365	(1)	23,744
Capital assets, not being depreciated:				
Land	501	-	-	501
Construction in progress	<u>7,550</u>	<u>(7,550)</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>8,051</u>	<u>(7,550)</u>	<u>-</u>	<u>501</u>
Business-type activities capital assets, net	<u>\$ 25,431</u>	<u>\$ (1,185)</u>	<u>\$ (1)</u>	<u>\$ 24,245</u>

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

Governmental Activities:	
General government	\$ 90
Public safety	189
Highways and streets	212
School department	610
Culture and recreation	<u>38</u>
Total depreciation expense - governmental activities	\$ <u>1,139</u>
Business-Type Activities:	
Water	\$ 540
Sewer	<u>646</u>
Total depreciation expense - business-type activities	\$ <u>1,186</u>

11. Accounts Payable

Accounts payable represent additional 2009 expenditures paid in fiscal year 2010.

12. 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, 2009 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.

13. Notes Payable

The following summarizes activity in notes payable during fiscal year 2009:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Stockpole land purchase	\$ <u>1,433,000</u>	\$ <u>-</u>	\$ <u>1,433,000</u>	\$ <u>-</u>
Total	\$ <u>1,433,000</u>	\$ <u>-</u>	\$ <u>1,433,000</u>	\$ <u>-</u>

14. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2014. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2009:

2010	\$ 52,726
2011	30,465
2012	30,465
2013	30,465
2014 - 2019	<u>30,465</u>
Total minimum lease payments	174,586
Less amount representing interest	(<u>21,348</u>)
Present Value of Minimum Lease Payments	\$ <u>153,236</u>

15. 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	\$ 2,120,000
* 1990 Route 16 sewer	3,000,000	2009	6.7	150,000
1995 Middle School addition	2,000,000	2009	4.4	130,000
1998 Road improvement	1,000,000	2014	5.0	325,000
2000 High Street Corridor	1,300,000	2019	5.2	715,000
2000 Kindergarten	310,000	2019	5.2	165,000
2001 Plaza upgrade	475,000	2015	4.9	195,000
2001 New city hall	1,400,000	2015	4.9	855,000
2002 Landfill cleanup	750,000	2016	4.5	400,000
2002 New city hall	450,000	2016	4.5	240,000
2006 Capital improvements	1,395,355	2015	3.45	974,900
2007 Police station	3,426,127	2021	4.43	2,970,000
2009 School land	1,338,545	2018	4.00 - 5.25	<u>1,338,545</u>
Total Governmental Bonds Payable				\$ <u>10,578,445</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>8,775,932</u>
Subtotal				8,775,932
<u>Water:</u>				
Water plant addition	2,650,000	2010	6.9 - 7.1	260,000
Water high lift project	650,000	2016	3.7275	346,667
Water upgrade	300,311	-	1.09	122,062
Water treatment plant upgrade	1,843,500	2028	4.25 - 5.25	1,750,000
Water treatment plant –revolving	5,000,000	2028	2.48	<u>4,885,119</u>
Subtotal				<u>7,363,848</u>
Total Business-type Bonds Payable				\$ <u>16,139,780</u>

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

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2009 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,373,545	\$ 506,382	\$ 1,879,927
2011	1,095,000	443,659	1,538,659
2012	1,095,000	390,096	1,485,096
2013	1,095,000	334,909	1,429,909
2014	1,095,000	278,863	1,373,863
2015 - 2019	3,929,900	647,155	4,577,055
2020 - 2024	<u>895,000</u>	<u>60,656</u>	<u>955,656</u>
Total	\$ <u>10,578,445</u>	\$ <u>2,661,720</u>	\$ <u>13,240,165</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, 2009:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,026,304	\$ 534,981	\$ 1,561,285
2011	1,033,262	496,927	1,530,189
2012	848,445	463,323	1,311,768
2013	855,205	434,840	1,290,045
2014	862,205	405,239	1,267,444
2015 - 2019	4,328,185	1,578,650	5,906,835
2020 - 2024	4,398,609	862,540	5,261,149
2025 - 2028	<u>2,787,565</u>	<u>185,303</u>	<u>2,972,868</u>
Total	\$ <u>16,139,780</u>	\$ <u>4,961,803</u>	\$ <u>21,101,583</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2009, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/09</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/09</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 10,480	\$ 1,338	\$ (1,240)	\$ 10,578	\$ (1,373)	\$ 9,205
OPEB liability	-	428	-	428	-	428
Lease payable	40	133	(20)	153	(21)	132
Other:						
Landfill closure	2,125	-	(125)	2,000	(125)	1,875
Accrued employee benefits	<u>938</u>	<u>123</u>	<u>(3)</u>	<u>1,058</u>	<u>(212)</u>	<u>846</u>
Totals	<u>\$ 13,583</u>	<u>\$ 2,022</u>	<u>\$ (1,388)</u>	<u>\$ 14,217</u>	<u>\$ (1,731)</u>	<u>\$ 12,486</u>
	Total Balance <u>7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/09</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/09</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 17,098	\$ -	\$ (958)	\$ 16,140	\$ (1,026)	\$ 15,114
OPEB liability	-	16	-	16	-	16
Notes payable	1,837	-	-	1,837	-	1,837
Advance from other funds	1,015	963	(11)	1,967	-	1,967
Other:						
Accrued employee benefits	<u>30</u>	<u>6</u>	<u>-</u>	<u>36</u>	<u>-</u>	<u>36</u>
Totals	<u>\$ 19,980</u>	<u>\$ 985</u>	<u>\$ (969)</u>	<u>\$ 19,996</u>	<u>\$ (1,026)</u>	<u>\$ 18,970</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 was complete as of June 30, 2009.

To fund the remaining portion of the project, the City was awarded and is using a state revolving note for \$ 1,836,616. The City has begun drawing down on this note and has received all of this note as of June 30, 2009. The note will be reclassified as a bond and amortized over the state-provided payment schedule in fiscal year 2010.

16. 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 \$ 2,000,000 reported as landfill closure and postclosure care liability at June 30, 2009 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 2009. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

17. 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.

18. Reserves 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, 2009:

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

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

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.

19. 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 budgetary basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ (258,874)
Deferred revenue	<u>904,925</u>
Tax Rate Setting Balance	<u>\$ 646,051</u>

20. Subsequent Events

Debt

Subsequent to June 30, 2009, the City has incurred the following additional debt and lease:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ 152,234	4.84%	10/21/09	10/21/13
Lease street sweeper	\$ 152,550	5.02%	07/01/09	07/01/14

21. 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 year.

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 year.

22. Post-Employment Health Care and Life Insurance Benefits

Other Post-Employment Benefits

During the year, the City partially implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The City used the alternative measurement method instead of obtaining an actuarial valuation. Statement 45 allows employers with less than one hundred total plan members to apply a simplified alternative measurement method instead of obtaining actuarial valuations. The City of Somersworth has over one hundred total plan members. The alternative method includes the same broad measurement steps as an actuarial valuation; however, it permits simplification of certain assumptions to make the method usable by nonspecialists. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of a required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the City indirectly provides post-employment health care for retired employees through an implicit rate covered by current year employees. Retirees of the City pay to participate in the City's health care program. Since they are included in the same pool as current employees, the insurance rates are higher for current employees due to the age consideration. This increased rate is an implicit rate the City covers for the retirees. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of June 30, 2009, approximately 103 retirees and 495 active employees, including eligible spouses and dependents, meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute 100% of the cost of the health plan, as determined by the City. The City contributes its implicit rate subsidy of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2009 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2009, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an alternative measurement method valuation as of June 30, 2009.

Annual Required Contribution (ARC)	\$ 444,309
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>444,309</u>
Contributions made	-
Increase in net OPEB obligation	<u>444,309</u>
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u><u>\$ 444,309</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 444,309	0%	\$ 444,309

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009, the date of the alternative measurement method valuation was calculated:

Actuarial accrued liability (AAL)	\$ 3,776,963
Calculated value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,776,963</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 12,619,504</u>
UAAL as a percentage of covered payroll	<u>30%</u>

Valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009 calculated valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 10% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

23. 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, 2009, 2008, and 2007 were \$ 469,538, \$ 445,495, and \$ 341,690, respectively, which were equal to its annual required contributions for each of these years.

24. 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.

**CITY OF SOMERSWORTH, NEW HAMPSHIRE
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2009
(Unaudited)
(Amounts Expressed in thousands)**

Other Post-Employment Benefits						
Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
06/30/09	\$ -	\$ 3,777	\$ 3,777	0.0%	\$ 12,619	29.93%

See Independent Auditors' Report.