

CITY OF SOMERSWORTH, NEW HAMPSHIRE

Financial Statements

With Schedule of Expenditures of Federal Awards

June 30, 2012

and

Independent Auditor's Report

**Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

**Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major Program
and on Internal Control Over Compliance in Accordance
With OMB Circular A-133**

Schedule of Findings and Questioned Costs

CITY OF SOMERSWORTH, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2012

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FINANCIAL STATEMENTS
June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor, City Council and Manager
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 (the City) as of and for the year ended June 30, 2012, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Somersworth, New Hampshire, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2013 on our consideration of the City of Somersworth, New Hampshire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress for other post-employment benefits on pages i-viii and 32-35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which

consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Somersworth, New Hampshire's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole

Jackson Chikang & Company PC

February 12, 2013

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, 2012. 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 fund. A budgetary comparison statement has been provided for the general fund 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 is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$24,822,095 (i.e., net assets), a change of \$2,043,775 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$5,178,954, a change of \$(2,143,153) in comparison with the prior year. This includes activity from the Idlehurst Elementary School Project which accounts for \$(2,576,563). The change in the General Fund and Non-major funds is \$433,410 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,232,783, a change of \$634,397 in comparison with the prior year. Due to City Council action, \$350,000 of the General Fund fund balance has been designated for future years' expenditures and classified as assigned.
- Total bonds payable at the close of the current fiscal year was \$36,859,586, a change of \$(3,408,315) 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$15,790	\$21,411	\$2,911	\$1,960	\$18,701	\$23,371
Capital assets	<u>38,456</u>	<u>37,290</u>	<u>21,340</u>	<u>22,328</u>	<u>59,796</u>	<u>59,618</u>
Total assets	54,246	58,701	24,251	24,288	78,497	82,989
Long-term liabilities outstanding	27,049	29,093	13,014	13,850	40,063	42,942
Other liabilities	<u>12,539</u>	<u>16,083</u>	<u>1,073</u>	<u>1,186</u>	<u>13,612</u>	<u>17,269</u>
Total liabilities	39,588	45,175	14,087	15,036	53,675	60,211
Net assets:						
Invested in capital assets, net	14,371	13,336	9,330	7,745	23,701	21,081
Restricted	255	343	-	-	255	343
Unrestricted	<u>32</u>	<u>(153)</u>	<u>834</u>	<u>1,507</u>	<u>866</u>	<u>1,354</u>
Total net assets	\$14,658	\$13,526	\$10,164	\$9,252	\$24,822	\$22,778

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,292	\$ 2,419	\$ 4,992	\$ 5,152	\$ 7,284	\$ 7,571
Operating grants and contributions	11,482	11,616	-	-	11,482	11,616
Capital grants and contributions	59	171	64	95	123	266
General revenues:						
Taxes	21,063	20,685	-	-	21,063	20,685
Licenses and Permits	1,353	1,341	-	-	1,353	1,341
Intergovernmental	526	536	-	-	526	536
Interest	36	97	-	-	36	97
Miscellaneous	<u>530</u>	<u>564</u>	<u>59</u>	<u>63</u>	<u>589</u>	<u>627</u>
Total revenues	37,341	37,429	5,115	5,310	42,456	42,739
Expenses:						
General government	1,522	1,674	-	-	1,522	1,674
Public safety	5,400	5,512	-	-	5,400	5,512
Highways and streets	2,162	2,080	-	-	2,162	2,080
Health and welfare	249	253	-	-	249	253
Culture and recreation	626	676	-	-	626	676
School department	25,791	24,353	-	-	25,791	24,353
Interest	459	479	-	-	459	479
Other	-	-	-	-	-	-
Water operations	-	-	1,745	1,909	1,745	1,909
Sewer operations	-	-	2,117	2,082	2,117	2,082
Solid waste operations	<u>-</u>	<u>-</u>	<u>341</u>	<u>338</u>	<u>341</u>	<u>338</u>
Total expenses	<u>36,209</u>	<u>35,027</u>	<u>4,203</u>	<u>4,329</u>	<u>40,412</u>	<u>39,356</u>
Change in net assets before transfers	1,132	2,402	912	981	2,044	3,383
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	1,132	2,402	912	981	2,044	3,383
Net assets - beginning of year	<u>13,526</u>	<u>11,124</u>	<u>9,252</u>	<u>8,271</u>	<u>22,778</u>	<u>19,395</u>
Net assets - end of the year	<u>\$14,658</u>	<u>\$13,526</u>	<u>\$10,164</u>	<u>\$9,252</u>	<u>\$24,822</u>	<u>\$22,778</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 \$24,822,095, a change of \$2,043,775 from the prior year.

The largest portion of net assets, \$23,700,760 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, \$255,091 represents resources that are subject to external restrictions on how they may be used. The remaining balance represents unrestricted net assets of \$866,244.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$1,131,910. Key elements of this change are as follows:

	Governmental Activities
General fund operating results, as disclosed in Exhibit D	\$ 339,279
Non-major funds - accrual basis	(2,482,432)
Other GAAP accruals	<u>3,275,063</u>
Total	<u>\$1,131,910</u>

Business-Type Activities. Business-type activities for the year resulted in a change in net assets of \$911,865. Key elements of this change are as follows:

Water Fund	\$554,106
Sewer Fund	328,780
Solid Waste Fund	<u>28,979</u>
Total	<u>\$911,865</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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$5,178,954, a change of \$(2,143,153) in comparison with the prior year. Key elements of this change are as follows:

	Governmental Funds
General fund operating results, as disclosed below	\$ 339,279
Non-major fund operating results	<u>(2,482,432)</u>
Total	<u>\$ (2,143,153)</u>

The general fund is the main operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,232,783 while total fund balance was \$4,246,574. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures.

The fund balance of the general fund changed by \$339,279 during the current fiscal year. Key factors in this change are as follows:

	General Fund
Actual revenues in excess of budgeted amounts	\$ 6,165
Actual expenditures less than appropriated amounts	470,602
Property tax collections exceeding (less than) net tax levy	161,216
Use of fund balance as funding source	(110,671)
Excess of current year encumbrances over prior year	(240,246)
Non-budgetary Revenues and Expenses:	
Capital Reserve Funds	43,307
Landfill Trust Fund	<u>8,906</u>
Total	<u>\$339,279</u>

For the purposes of the Governmental Accounting Standards Board statement 54, the activity of the capital reserve funds and the landfill trust fund are included with the General Fund. However, for budgetary purposes, the capital reserve funds and the landfill trust fund are not budgeted items.

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 are \$834,490, a change of \$(672,850) in comparison with the prior year.

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

The original budget increased by \$169,252. During September 2011, the Somersworth City Council adopted Ordinance 7-12 providing a supplemental appropriation in the amount of \$169,252 to address the increase in employer rates for public safety officials and teachers enrolled in the New Hampshire State Retirement System.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets.

Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 59,795,948 (net of accumulated depreciation), a change of \$178,071 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 \$ 36,859,586, 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. As noted in the Financial Statements, the Water and Sewer utilities have become self supporting for the year end June 30, 2012. It is the intent of the City Council to review and adjust rates as necessary on an annual basis, based on the approved operating budget.

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

EXHIBIT A
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Statement of Net Assets
June 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 10,013,437		\$ 10,013,437
Investments	4,254,647		4,254,647
Taxes receivable, net	1,247,939		1,247,939
Accounts receivable, net	146,749	\$ 692,341	839,090
Due from other governments	415,723	122,388	538,111
Internal balances	(308,356)	308,356	-
Deferred debt financing expense		5,394	5,394
Prepaid expenses	19,921		19,921
Inventory		154,462	154,462
Total Current Assets	<u>15,790,060</u>	<u>1,282,941</u>	<u>17,073,001</u>
Noncurrent Assets:			
Due from other governments		1,591,037	1,591,037
Deferred debt financing expense		37,309	37,309
Capital assets:			
Non-depreciable capital assets	2,443,791	500,895	2,944,686
Depreciable capital assets, net	<u>36,012,359</u>	<u>20,838,903</u>	<u>56,851,262</u>
Total Noncurrent Assets	<u>38,456,150</u>	<u>22,968,144</u>	<u>61,424,294</u>
Total Assets	<u>\$ 54,246,210</u>	<u>\$ 24,251,085</u>	<u>\$ 78,497,295</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 326,872	\$ 69,874	\$ 396,746
Accrued expenses	241,155	86,626	327,781
Retainage payable	50,000		50,000
Deferred revenue	9,167,891		9,167,891
Current portion of deferred bond premium	44,036	21,956	65,992
Current portion of bonds payable	2,363,130	894,691	3,257,821
Current portion of capital leases payable	205,900		205,900
Current portion of compensated absences payable	15,000		15,000
Current portion of estimated liability for landfill postclosure care costs	<u>125,000</u>		<u>125,000</u>
Total Current Liabilities	<u>12,538,984</u>	<u>1,073,147</u>	<u>13,612,131</u>
Noncurrent Liabilities:			
Deferred bond premium	994,429	151,877	1,146,306
Bonds payable	20,903,973	12,697,792	33,601,765
Capital leases payable	290,923		290,923
Compensated absences payable	1,633,338	88,611	1,721,949
Other post-employment benefits payable	1,726,568	75,558	1,802,126
Estimated liability for landfill postclosure care costs	<u>1,500,000</u>		<u>1,500,000</u>
Total Noncurrent Liabilities	<u>27,049,231</u>	<u>13,013,838</u>	<u>40,063,069</u>
Total Liabilities	<u>39,588,215</u>	<u>14,086,985</u>	<u>53,675,200</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,371,150	9,329,610	23,700,760
Restricted	255,091		255,091
Unrestricted	<u>31,754</u>	<u>834,490</u>	<u>866,244</u>
Total Net Assets	<u>14,657,995</u>	<u>10,164,100</u>	<u>24,822,095</u>
Total Liabilities and Net Assets	<u>\$ 54,246,210</u>	<u>\$ 24,251,085</u>	<u>\$ 78,497,295</u>

See accompanying notes to the basic financial statements

EXHIBIT B
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>	<u>Business-type</u>	
					<u>Governmental Activities</u>	<u>Activities</u>	
Governmental Activities:							
General government	\$ 1,522,147	\$ 143,534			\$ (1,378,613)		\$ (1,378,613)
Public safety	5,400,055	121,952	\$ 12,068		(5,266,035)		(5,266,035)
Highways and streets	2,154,652	6,856	258,774	\$ 59,000	(1,830,022)		(1,830,022)
Sanitation	7,361				(7,361)		(7,361)
Health and welfare	248,579				(248,579)		(248,579)
Culture and recreation	451,898	67,685	22,260		(361,953)		(361,953)
Economic development	174,576		171,440		(3,136)		(3,136)
Education	25,165,696	1,676,181	9,656,833		(13,832,682)		(13,832,682)
Food service	624,913	275,670	343,858		(5,385)		(5,385)
Debt service	458,923		1,016,545		557,622		557,622
Total governmental activities	<u>36,208,800</u>	<u>2,291,878</u>	<u>11,481,778</u>	<u>\$ 59,000</u>	<u>(22,376,144)</u>	<u>\$ -</u>	<u>(22,376,144)</u>
Business-type activities:							
Water	1,744,841	2,256,165				511,324	511,324
Sewer	2,116,877	2,365,174		64,033		312,330	312,330
Solid waste	341,395	370,374				28,979	28,979
Total business-type activities	<u>4,203,113</u>	<u>4,991,713</u>	<u>-</u>	<u>64,033</u>	<u>-</u>	<u>852,633</u>	<u>852,633</u>
Total primary government	<u>\$ 40,411,913</u>	<u>\$ 7,283,591</u>	<u>\$ 11,481,778</u>	<u>\$ 123,033</u>	<u>(22,376,144)</u>	<u>852,633</u>	<u>(21,523,511)</u>
General revenues:							
Property and other taxes					21,063,102		21,063,102
Licenses and permits					1,352,623		1,352,623
Grants and contributions:							
Rooms and meals tax distribution					525,591		525,591
Interest and investment earnings					36,368		36,368
Miscellaneous					530,370	59,232	589,602
Total general revenues					<u>23,508,054</u>	<u>59,232</u>	<u>23,567,286</u>
Change in net assets					1,131,910	911,865	2,043,775
Net assets - beginning					<u>13,526,085</u>	<u>9,252,235</u>	<u>22,778,320</u>
Net assets - ending					<u>\$ 14,657,995</u>	<u>\$ 10,164,100</u>	<u>\$ 24,822,095</u>

See accompanying notes to the basic financial statements

EXHIBIT C
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 9,390,193	\$ 623,244	\$ 10,013,437
Investments	4,038,133	216,514	4,254,647
Taxes receivable, net	1,247,939		1,247,939
Accounts receivable	141,906	4,843	146,749
Due from other governments	26,880	388,843	415,723
Due from other funds	397,527	128,958	526,485
Prepaid expenses	19,921		19,921
Total Assets	<u>\$ 15,262,499</u>	<u>\$ 1,362,402</u>	<u>\$ 16,624,901</u>
LIABILITIES			
Accounts payable	\$ 199,562	\$ 59,888	\$ 259,450
Accrued expenses	55,628		55,628
Retainage payable		50,000	50,000
Deferred revenue	10,178,606		10,178,606
Due to other funds	582,129	320,134	902,263
Total Liabilities	<u>11,015,925</u>	<u>430,022</u>	<u>11,445,947</u>
FUND BALANCES			
Nonspendable	19,921	193,749	213,670
Restricted		528,733	528,733
Committed	617,596		617,596
Assigned	376,274	209,898	586,172
Unassigned	3,232,783		3,232,783
Total Fund Balances	<u>4,246,574</u>	<u>932,380</u>	<u>5,178,954</u>
Total Liabilities and Fund Balances	<u>\$ 15,262,499</u>	<u>\$ 1,362,402</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			38,456,150
Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis			1,010,715
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:			
Bonds payable			(23,267,103)
Capital leases payable			(496,823)
Deferred bond premium			(1,038,465)
Accrued interest on long-term obligations			(185,527)
Compensated absences payable			(1,648,338)
Other post-employment benefits payable			(1,726,568)
Estimated liability for landfill postclosure care costs			(1,625,000)
Net assets of governmental activities			<u>\$ 14,657,995</u>

See accompanying notes to the basic financial statements

EXHIBIT D

CITY OF SOMERSWORTH, NEW HAMPSHIRE

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 21,224,318		\$ 21,224,318
Licenses and permits	1,352,623		1,352,623
Intergovernmental	9,982,355	\$ 2,025,014	12,007,369
Charges for services	1,873,564	418,314	2,291,878
Interest and investment income	19,419	16,949	36,368
Miscellaneous	453,920	76,450	530,370
Total Revenues	<u>34,906,199</u>	<u>2,536,727</u>	<u>37,442,926</u>
Expenditures:			
Current operations:			
General government	1,400,959		1,400,959
Public safety	4,962,160	11,504	4,973,664
Highways and streets	1,836,673		1,836,673
Sanitation	132,361		132,361
Health and welfare	248,579		248,579
Culture and recreation	384,075	24,752	408,827
Economic development	4,100	170,476	174,576
Education	22,301,123	1,716,544	24,017,667
Food service		624,913	624,913
Capital outlay	212,688	2,588,463	2,801,151
Debt service:			
Principal retirement	2,417,512		2,417,512
Interest and fiscal charges	689,455		689,455
Total Expenditures	<u>34,589,685</u>	<u>5,136,652</u>	<u>39,726,337</u>
Excess revenues over (under) expenditures	<u>316,514</u>	<u>(2,599,925)</u>	<u>(2,283,411)</u>
Other financing sources (uses):			
Proceeds from capital lease	140,258		140,258
Transfers in	9,456	126,949	136,405
Transfers out	(126,949)	(9,456)	(136,405)
Total other financing sources (uses)	<u>22,765</u>	<u>117,493</u>	<u>140,258</u>
Net change in fund balances	339,279	(2,482,432)	(2,143,153)
Fund balances at beginning of year	<u>3,907,295</u>	<u>3,414,812</u>	<u>7,322,107</u>
Fund balances at end of year	<u>\$ 4,246,574</u>	<u>\$ 932,380</u>	<u>\$ 5,178,954</u>

See accompanying notes to the basic 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, 2012

Net Change in Fund Balances--Total Governmental Funds	\$ (2,143,153)
Amounts reported for governmental activities in the statement of activities are different because:	
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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	1,166,454
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(161,216)
Proceeds from capital leases are reported as other financing sources in the funds, but a capital lease increases long-term liabilities in the statement of net assets.	(140,258)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,417,512
Repayment of principal on capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	246,798
Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	45,648
In the statement of activities, interest is accrued on outstanding bonds and capital leases, whereas in governmental funds, an interest expenditure is reported when due.	12,365
Some expenses reported in the statement of activities, such as compensated absences, other post-employment benefits, and the estimated liability for landfill postclosure care costs, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(312,240)
Change in Net Assets of Governmental Activities	<u>\$ 1,131,910</u>

EXHIBIT E
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Business-type Activities			
	Water <u>Fund</u>	Sewer <u>Fund</u>	Solid Waste <u>Fund</u>	<u>Totals</u>
ASSETS				
Current Assets:				
Accounts receivable, net	\$ 331,847	\$ 343,153	\$ 17,341	\$ 692,341
Due from other governments		122,388		122,388
Due from other funds	365,154		20,595	385,749
Deferred debt financing expense		5,394		5,394
Inventory	122,574		31,888	154,462
Total Current Assets	<u>819,575</u>	<u>470,935</u>	<u>69,824</u>	<u>1,360,334</u>
Noncurrent Assets:				
Due from other governments		1,591,037		1,591,037
Deferred debt financing expense		37,309		37,309
Capital assets:				
Non-depreciable capital assets	144,510	356,385		500,895
Depreciable capital assets, net	<u>7,006,424</u>	<u>13,832,479</u>		<u>20,838,903</u>
Total Noncurrent Assets	<u>7,150,934</u>	<u>15,817,210</u>	<u>-</u>	<u>22,968,144</u>
Total Assets	<u>\$ 7,970,509</u>	<u>\$ 16,288,145</u>	<u>\$ 69,824</u>	<u>\$ 24,328,478</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 13,625	\$ 32,112	\$ 24,137	\$ 69,874
Accrued expenses	74,643	11,983		86,626
Due to other funds		77,393		77,393
Current portion of deferred bond premiums		21,956		21,956
Current portion of bonds payable	<u>338,975</u>	<u>555,716</u>		<u>894,691</u>
Total Current Liabilities	<u>427,243</u>	<u>699,160</u>	<u>24,137</u>	<u>1,150,540</u>
Noncurrent Liabilities:				
Deferred bond premiums		151,877		151,877
Bonds payable	5,665,556	7,032,236		12,697,792
Compensated absences payable	64,973	23,638		88,611
Other post-employment benefits payable	<u>49,900</u>	<u>25,658</u>		<u>75,558</u>
Total Noncurrent Liabilities	<u>5,780,429</u>	<u>7,233,409</u>	<u>-</u>	<u>13,013,838</u>
Total Liabilities	<u>6,207,672</u>	<u>7,932,569</u>	<u>24,137</u>	<u>14,164,378</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,146,403	8,183,207		9,329,610
Unrestricted	<u>616,434</u>	<u>172,369</u>	<u>45,687</u>	<u>834,490</u>
Total Net Assets	<u>1,762,837</u>	<u>8,355,576</u>	<u>45,687</u>	<u>10,164,100</u>
Total Liabilities and Net Assets	<u>\$ 7,970,509</u>	<u>\$ 16,288,145</u>	<u>\$ 69,824</u>	<u>\$ 24,328,478</u>

See accompanying notes to the basic financial statements

EXHIBIT F
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities			
	Water	Sewer	Solid Waste	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Totals</u>
Operating revenues:				
Charges for services	\$ 2,256,165	\$ 2,365,174	\$ 370,374	\$ 4,991,713
Miscellaneous	42,782	16,450		59,232
Total operating revenues	<u>2,298,947</u>	<u>2,381,624</u>	<u>370,374</u>	<u>5,050,945</u>
Operating expenses:				
Personnel services	537,343	422,242		959,585
Contractual services	34,908	252,986	293,268	581,162
Repairs and maintenance	57,737	84,492		142,229
Administration	64,464	54,039	195	118,698
Materials and supplies	212,160	161,099	47,932	421,191
Utilities	128,903	201,880		330,783
Depreciation	421,199	639,267		1,060,466
Miscellaneous	55,040	55,000		110,040
Total operating expenses	<u>1,511,754</u>	<u>1,871,005</u>	<u>341,395</u>	<u>3,724,154</u>
Operating income	<u>787,193</u>	<u>510,619</u>	<u>28,979</u>	<u>1,326,791</u>
Non-operating (expenses):				
Interest expense	<u>(233,087)</u>	<u>(245,872)</u>		<u>(478,959)</u>
Total non-operating (expenses)	<u>(233,087)</u>	<u>(245,872)</u>	<u>-</u>	<u>(478,959)</u>
Income before capital contributions	554,106	264,747	28,979	847,832
Capital contributions		<u>64,033</u>		<u>64,033</u>
Change in net assets	554,106	328,780	28,979	911,865
Total net assets at beginning of year	<u>1,208,731</u>	<u>8,026,796</u>	<u>16,708</u>	<u>9,252,235</u>
Total net assets at end of year	<u>\$ 1,762,837</u>	<u>\$ 8,355,576</u>	<u>\$ 45,687</u>	<u>\$ 10,164,100</u>

See accompanying notes to the basic financial statements

EXHIBIT G
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities			
	Water Fund	Sewer Fund	Solid Waste Fund	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 2,500,739	\$ 2,552,366	\$ 366,588	\$ 5,419,693
Cash paid to suppliers	(788,631)	(954,507)	(353,798)	(2,096,936)
Cash paid to employees	(325,626)	(259,983)		(585,609)
Net cash provided by operating activities	<u>1,386,482</u>	<u>1,337,876</u>	<u>12,790</u>	<u>2,737,148</u>
Cash flows from capital financing activities:				
Purchases of capital assets	(60,198)	(11,885)		(72,083)
Capital contributions		186,421		186,421
Proceeds from bonds issued		7,990,342		7,990,342
Payment of bond issuance costs		(44,302)		(44,302)
Principal paid on long-term debt	(332,212)	(8,468,591)		(8,800,803)
Interest paid on long-term debt	(237,735)	(385,112)		(622,847)
Net cash (used) for capital financing activities	<u>(630,145)</u>	<u>(733,127)</u>	<u>-</u>	<u>(1,363,272)</u>
Net increase in cash and cash equivalents	756,337	604,749	12,790	1,373,876
Cash and cash equivalents (deficiency) at beginning of year	(391,183)	(682,142)	7,805	(1,065,520)
Cash and cash equivalents (deficiency) at end of year	<u>\$ 365,154</u>	<u>\$ (77,393)</u>	<u>\$ 20,595</u>	<u>\$ 308,356</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 787,193	\$ 510,619	\$ 28,979	\$ 1,326,791
Adjustments to reconcile operating income to net cash provided used by operating activities:				
Depreciation expense	421,199	639,267		1,060,466
Changes in assets and liabilities:				
Accounts receivable, net	201,792	170,742	(3,786)	368,748
Inventory	(14,450)		(11,351)	(25,801)
Accounts payable	(29,688)	3,604	(1,052)	(27,136)
Accrued expenses	3,107	2,531		5,638
Compensated absences payable	1,217	4,153		5,370
Other post-employment benefits payable	16,112	6,960		23,072
Net cash provided by operating activities	<u>\$ 1,386,482</u>	<u>\$ 1,337,876</u>	<u>\$ 12,790</u>	<u>\$ 2,737,148</u>
Supplemental disclosure of non-cash transactions:				
Amortization on deferred bond premiums		\$ 6,509		\$ 6,509
Amortization on deferred debt financing expense		(1,599)		(1,599)
	<u>\$ -</u>	<u>\$ 4,910</u>	<u>\$ -</u>	<u>\$ 4,910</u>

See accompanying notes to the basic financial statements

EXHIBIT H
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Private- Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
ASSETS		
Cash and cash equivalents		\$ 255,204
Investments	\$ 202,147	
Due from other funds		67,422
Total assets	<u>\$ 202,147</u>	<u>\$ 322,626</u>
LIABILITIES		
Accounts payable		\$ 815
Due to student groups		86,596
Deposits		235,215
Total liabilities	<u>\$ -</u>	<u>\$ 322,626</u>
NET ASSETS		
Held in trust	<u>202,147</u>	
Total net assets	<u>\$ 202,147</u>	

See accompanying notes to the basic financial statements

EXHIBIT I
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012

	Private- Purpose <u>Trust Funds</u>
ADDITIONS:	
Investment earnings:	
Interest	\$ 5,302
Realized gains on investments	1,415
Net increase in the fair value of investments	<u>4,593</u>
Total Investment Earnings	<u>11,310</u>
Total Additions	<u>11,310</u>
DEDUCTIONS:	
Benefits	<u>11,900</u>
Total Deductions	<u>11,900</u>
Change in net assets	(590)
Net assets - beginning of year	<u>202,737</u>
Net assets - end of year	<u>\$ 202,147</u>

See accompanying notes to the basic financial statements

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Somersworth, New Hampshire conform to accounting policies generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of significant accounting policies.

Financial Reporting Entity

The City of Somersworth, New Hampshire (the City) was incorporated in 1893. The City operates under the City Council/City Manager form of government and performs local governmental functions as authorized by State law.

The financial statements include those of the various departments governed by the City Council and other officials with financial responsibility. The City has no other separate organizational units, which meet criteria for inclusion in the financial statements as defined by the Governmental Accounting Standards Board (GASB).

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-Wide Financial Statements:

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

2. Fund Financial Statements:

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

Fund Accounting

The City uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

1. Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the City's major governmental fund:

The General Fund is the main operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.

2. Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The City has no internal service funds. The following are the City's major proprietary funds:

The Water Fund accounts for all revenues and expenses pertaining to the City's water operations.

The Sewer Fund accounts for all revenues and expenses pertaining to the City's wastewater treatment operations.

The Solid Waste Fund accounts for the sale of City trash bags for which the revenue derived funds the costs of solid waste collection and disposal in the City.

The Water, Sewer and Solid Waste Funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e. expenses including depreciation) of providing goods or services to the residents on a continuing basis are financed or recovered primarily through user charges.

3. Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City maintains eleven private purpose trusts which account for monies designated to benefit individuals within the City. The City's agency funds are custodial in nature (assets equal liabilities) and do not involve the

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

measurement of results of operations. The City's agency funds account for Student Activities Funds of the schools and escrow deposits from vendors performing construction within the City.

Measurement Focus

1. Government-Wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the Statement of Net Assets.

2. Fund Financial Statements:

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund type is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

The private purpose trust fund is reported using the economic resources measurement focus.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

In the government-wide financial statements and proprietary fund statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected not to follow the FASB pronouncements issued subsequent to November 30, 1989.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

1. Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 2). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes and interest on investments.

Licenses and permits, charges for services, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

2. Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

3. Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

Budgetary Data

The City's budget represents functional appropriations as authorized by the City Council. The Council may transfer funds between operating categories as they deem necessary. The City adopts its budget under State regulations, which differ somewhat from accounting principles generally accepted in the United States of America in that the focus is on the entire governmental unit rather than on the basis of fund types.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended June 30, 2012, the City applied \$110,671 of its unappropriated fund balance to reduce taxes.

Cash and Cash Equivalents

The City pools its cash resources for the governmental and proprietary funds. Cash applicable to a particular fund is reflected as an interfund balance. For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of the following:

	<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Totals</u>
Proprietary Funds:			
Water Fund	\$ 365,154		\$ 365,154
Sewer Fund		\$ (77,393)	(77,393)
Solid Waste Fund	20,595		20,595
	<u>\$ 385,749</u>	<u>\$ (77,393)</u>	<u>\$ 308,356</u>

Investments

Investments are stated at their fair value in all funds. Certificates of deposit and repurchase agreements with a maturity of greater than ninety days from the date of issuance are included in investments.

Accounts Receivable

Charges for services billed during the current fiscal year and prior and uncollected at June 30, 2012 are recorded as receivables net of reserves for estimated uncollectibles of \$36,510 and \$38,128 in the Water Fund and Sewer Fund, respectively.

Taxes Receivable

Taxes levied during the current fiscal year and prior and uncollected at June 30, 2012 are recorded as receivables net of reserves for estimated uncollectibles of \$135,052.

Deferred Debt Financing Expense

The refinancing of general obligation bonds that resulted in a difference between the reacquisition price and the net carrying value of the old debt has been reported in the accompanying financial statements as deferred debt financing expense. This difference is being amortized as a component of interest expense over the remaining life of the new debt. The balance of the deferred debt financing expense as of June 30, 2012 is \$42,703 in the business-type activities.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2012 are recorded as prepaid items.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

Encumbrance Accounting

Encumbrance accounting, under which purchase orders and other commitments for expenditure of monies are recorded in order to reserve a portion of the applicable appropriation, is employed as an extension of formal budgetary integration in Governmental Funds. Encumbrances outstanding at year-end are reported as a component of fund balance since they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services.

Inventory

The City accounts for its inventories under the average cost method.

The cost of inventory items is recorded as expenditures in the governmental fund types when purchased.

Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net assets, but are not reported in the governmental fund financial statements.

All capital assets including infrastructure and intangible assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the date received. The City maintains a capitalization threshold of \$10,000. The City's infrastructure consists of roads, bridges, sidewalks, water purification and distribution system, sewer collection and treatment system, and similar items. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary capital assets is also capitalized.

All reported capital assets except for land, easements with an indefinite life and construction in process are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Infrastructure	30-75
Buildings and improvements	20-40
Vehicles and equipment	5

Compensated Absences and Retirement Benefits

Employees earn vacation and sick leave as they provide services. Provision is made in the annual budget for vacation and sick leave. Pursuant to City personnel policy and collective bargaining agreements, employees may accumulate (subject to certain limitations) unused sick pay earned and, upon retirement, resignation or death will be compensated for such amounts at current rates of pay.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

City teachers may be eligible to receive a retirement incentive. Upon retirement, teachers over the age of 55 years of age shall receive 1% of their current salary multiplied by the number of years of service. After attaining the age of 60, teachers will receive 10% of their last year's salary provided they have twenty years of service with the City.

For governmental fund financial statements, compensated absences and accrued retirement benefits are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee death or retirement. The entire compensated absence liability is reported on the government-wide financial statements.

Deferred Bond Premium

The issuance of general obligation bonds resulted in a difference between the bond proceeds and the actual principal to be repaid. This difference, reported in the accompanying financial statements as a deferred bond premium, is being amortized as a component of interest expense over the lives of the related bonds. The balances of the deferred bond premiums as of June 30, 2012 are \$1,038,465 and \$173,833 in the governmental and business-type activities, respectively.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they are due for payment during the current fiscal year. General obligation bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the net outstanding balances on any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Balance Policy

The City complies with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which established new fund balance classifications and changes the definition of governmental fund types. Under Statement 54, the City has segregated fund balance into five classifications; Nonspendable, Restricted, Committed, Assigned, and Unassigned. These components of fund balance are defined as follows:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

- **Nonspendable Fund Balance:** Amounts that are not in a spendable form or are required to be maintained intact.
- **Restricted Fund Balance:** Amounts constrained to specific purposes by their providers through constitutional provisions or by enabling legislation.
- **Committed Fund Balance:** Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- **Assigned Fund Balance:** Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- **Unassigned Fund Balance:** Amounts that are available for any purpose; these amounts are reported only in the General Fund.

The fund balance of the City may only be committed for specific purposes pursuant to formal action of the City Council. The City Council delegates to the City Manager the authority to assign amounts to be used for specific purposes.

The City's policy is to first apply restricted resources when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications may be applied, committed resources are to be applied first, followed by assigned and unassigned.

In accordance with the City's fund balance policy, the City will strive to maintain an unassigned fund balance in its General Fund equal to 5-17% of the total appropriations of the community (which includes the City, School, and County). The City Council will review this information each year in order to determine the amount, if any, of unassigned fund balance to use to balance the budget and to reduce the property tax rate.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in the proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the water fund, sewer fund and solid waste fund, these revenues are charges to customers for sales and services. Operating expenses, which include depreciation on capital assets, are necessary costs incurred to provide the service that is the primary activity of the proprietary fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. Significant estimates include depreciation expense, the allowance for uncollectible receivables, the estimated liability for landfill post closure care costs, and the liability for other post-employment benefits.

NOTE 2—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$841,726,136 as of April 1, 2011) and are due in two installments on July 1, 2011 and December 12, 2011. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end).

Under State law, the Tax Collector obtains tax liens on properties which have unpaid taxes in the following calendar year after taxes were due for the amount of unpaid taxes, interest and costs. These priority tax liens accrue interest at 18% per annum. If the property is not redeemed within a two year redemption period, the property may be tax deeded to the City.

In accordance with State law, the City collects taxes for Strafford County, an independent governmental unit, which are remitted to the County as required by law. Total taxes appropriated during the year were \$2,207,896 for Strafford County. These taxes are not recognized as revenues in these financial statements. The City bears responsibility for uncollected taxes.

NOTE 3—RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2012, the City, excluding the school department, was a member of the New Hampshire Public Risk Management Exchange (PRIMEX). The City's school department was a member of the Local Government Center. The City currently reports all of its risk management activities in its General Fund. These Trusts are classified as "Risk Pools" in accordance with accounting principles generally accepted in the United States of America.

The Trust agreements permit the Trusts to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trusts foresee no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2012.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

Property and Liability Insurance

Both PRIMEX and the LGC provide certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of either PRIMEX or the LGC, the City shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program.

The PRIMEX program includes a Self Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000. For the year ended June 30, 2012, the LGC Trust retained \$500,000 of each loss up to an aggregate of \$5,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

Worker's Compensation

Both PRIMEX and the LGC provide statutory worker's compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. Both Trusts are self-sustaining through annual member premiums and provides coverage for the statutorily required workers' compensation benefits and employer's liability coverage up to \$2,000,000. The programs include a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

NOTE 4—DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 10,013,437
Investments	4,254,647
Statement of fiduciary net assets:	
Cash and cash equivalents	255,204
Investments	202,147
Total deposits and investments	<u>\$ 14,725,435</u>

Deposits and investments as of June 30, 2012 consist of the following:

Cash on hand	\$ 675
Deposits with financial institutions	12,035,143
Investments	2,689,617
Total deposits and investments	<u>\$ 14,725,435</u>

The City's investment policy for governmental fund types requires that deposits and investments be made in New Hampshire based financial institutions that are participants in one of the federal depository insurance programs. The City limits its investments to demand deposits, short-term governmental securities or obligations, certificates of deposit, and repurchase agreements in accordance with New Hampshire State law (RSA 41:29) or the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool. Responsibility for the investments of the Trust Funds is with the Board of Trustees. Investments of the Student Activities Agency Funds are at the discretion of the School Principals.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The City's investment policy addresses credit risk by limiting investments to the safest types of securities and diversifying the investment portfolio. The City limits its investments to U.S. Treasury securities, U.S. Government agencies, Certificates of Deposit, Overnight Investments, and the New Hampshire Public Deposit Investment Pool. As of June 30, 2012, none of these investments are rated.

The Trustees of Trust Funds have limited their investments to Mutual Funds, Money Market Mutual Funds and Commodities, none of which are rated.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty 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.

In accordance with the City's investment policy, all security transactions must be secured by collateral having a value at least 102% of the cash deposit in each case. The collateral shall only consist of securities in which Cities may invest, as provided in New Hampshire State law (RSA 368:57).

Of the City's deposits with financial institutions at year end \$760,717 was collateralized by securities held by the bank in the bank's name and \$-0- was uncollateralized. As of June 30, 2012, City investments in the following investment types were held by the same counterparty that was used to buy the securities.

	<u>Investment Type</u>	<u>Reported Amount</u>
Mutual funds		\$ 387,069
Money market mutual funds		299,934
Commodities		<u>2,598</u>
		<u>\$ 689,601</u>

Investment in NHPDIP

The City is a voluntary participant in the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool. The NHPDIP is not registered with the United States Securities and Exchange Commission as an investment company. The NHPDIP was created by state law and is administered by a public body of state, local and banking officials.

Investments in the NHPDIP are not investment securities and, as such, are not categorized by risk. The City's exposure to derivatives is indirect through its participation in the NHPDIP. The City's proportional share of these derivatives is not available. The fair value of the position in the investment pool is equal to the value of the pool shares.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 5—DUE FROM OTHER GOVERNMENTS

Receivables from other governments at June 30, 2012 consist of various federal and state reimbursements. All receivables are considered collectible in full. The sewer state aid grant reimbursement is to be received over the life of the debt and as such, is classified as current and noncurrent. A summary of the principal items of intergovernmental receivables is as follows:

	Governmental activities	Business-type activities
Current assets:		
State and federal school grant reimbursements	\$ 325,719	
Food service program	63,124	
State aid grant reimbursement		\$ 122,388
Homeland security grant	26,880	
	<u>415,723</u>	<u>122,388</u>
Noncurrent assets:		
State aid grant reimbursement		1,591,037
	<u>\$ 415,723</u>	<u>\$ 1,713,425</u>

NOTE 6—CAPITAL ASSETS

The following is a summary of changes in capital assets in the governmental funds:

	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012
Governmental activities:				
Capital asset not depreciated:				
Land	\$ 2,272,916			\$ 2,272,916
Easements	170,875			170,875
Construction in process	16,998,630		\$ (16,998,630)	-
Total capital assets not being depreciated	<u>19,442,421</u>	<u>\$ -</u>	<u>(16,998,630)</u>	<u>2,443,791</u>
Other capital assets:				
Infrastructure	7,835,405			7,835,405
Buildings and improvements	24,235,240	19,582,088		43,817,328
Vehicles and equipment	5,390,723	243,570	(249,370)	5,384,923
Total other capital assets at historical cost	<u>37,461,368</u>	<u>19,825,658</u>	<u>(249,370)</u>	<u>57,037,656</u>
Less accumulated depreciation for:				
Infrastructure	(1,825,797)	(153,179)		(1,978,976)
Buildings and improvements	(13,969,838)	(1,112,764)		(15,082,602)
Vehicles and equipment	(3,818,458)	(394,631)	249,370	(3,963,719)
Total accumulated depreciation	<u>(19,614,093)</u>	<u>(1,660,574)</u>	<u>249,370</u>	<u>(21,025,297)</u>
Total other capital assets, net	<u>17,847,275</u>	<u>18,165,084</u>	<u>-</u>	<u>36,012,359</u>
Total capital assets, net	<u>\$ 37,289,696</u>	<u>\$ 18,165,084</u>	<u>\$ (16,998,630)</u>	<u>\$ 38,456,150</u>

Depreciation was charged to governmental functions as follows:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

General government	\$ 85,351
Public safety	307,550
Highways and streets	295,798
Culture and recreation	27,159
Education	944,716
Total governmental activities depreciation expense	<u>\$ 1,660,574</u>

The balance of the assets acquired through capital leases as of June 30, 2012 is as follows:

Vehicles and equipment	\$ 1,129,300
Less accumulated depreciation:	
Vehicles and equipment	<u>(494,431)</u>
	<u>\$ 634,869</u>

The following is a summary of changes in capital assets in the proprietary funds:

	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012
Business-type activities:				
Capital asset not depreciated:				
Land	\$ 500,895			\$ 500,895
Total capital assets not being depreciated	<u>500,895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>500,895</u>
Other capital assets:				
Infrastructure	10,623,701	72,083		10,695,784
Buildings and improvements	25,942,226			25,942,226
Vehicles and equipment	863,165			863,165
Total other capital assets at historical cost	<u>37,429,092</u>	<u>72,083</u>	<u>-</u>	<u>37,501,175</u>
Less accumulated depreciation for:				
Infrastructure	(5,350,231)	(215,629)		(5,565,860)
Buildings and improvements	(9,688,587)	(803,076)		(10,491,663)
Vehicles and equipment	(562,988)	(41,761)		(604,749)
Total accumulated depreciation	<u>(15,601,806)</u>	<u>(1,060,466)</u>	<u>-</u>	<u>(16,662,272)</u>
Total other capital assets, net	<u>21,827,286</u>	<u>(988,383)</u>	<u>-</u>	<u>20,838,903</u>
Total capital assets, net	<u>\$ 22,328,181</u>	<u>\$ (988,383)</u>	<u>\$ -</u>	<u>\$ 21,339,798</u>

Depreciation was charged to proprietary funds as follows:

Water fund	\$ 421,199
Sewer fund	639,267
Total business-type activities depreciation expense	<u>\$ 1,060,466</u>

NOTE 7—DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the New Hampshire Retirement System (NHRS), a cost-sharing, multiple-employer, defined benefit pension plan administrated by the NHRS Board of Trustees. The plan provides

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

Funding Policy

Covered police officers and fire employees are required to contribute 11.55% and 11.80%, respectively of their covered salary, whereas teachers and general employees are required to contribute 7.0% of their covered salary. The City is required to contribute at an actuarially determined rate. The City's contribution rates for the covered payroll of police officers, fire employees, teachers, and general employees were 25.57%, 30.90%, 13.95%, and 11.09%, respectively, for July 2011 and 19.95%, 22.89%, 11.30%, and 8.80%, respectively, thereafter. The City contributes 100% of the employer cost for police officers, fire employees, teachers, and general employees of the City.

Under State law (RSA-100:16), plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The City's contributions to the NHRS for the years ending June 30, 2012, 2011 and 2010 were \$1,805,987, \$1,457,414, and \$1,394,306, respectively, equal to the required contributions for each year.

NOTE 8—OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the City provides medical, life insurance, and dental benefits to its eligible retirees. General employees are required to reach age 60 with 10 years of service or a combined age and service of 70 years to qualify for this benefit. Police officers and firefighters are eligible to receive this benefit upon retirement with an attained age of 45 with 20 years of service. All school employees are eligible to receive coverage upon retirement. Teachers are eligible to receive retiree medical coverage at no cost until age 65 if they were hired prior to May 1, 2005 and retire between the ages of 55 and 60. All other retirees and spouses of retirees pay the full cost of the health care coverage. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of July 1, 2011, the most recent actuarial valuation date, approximately 26 retirees and 292 active employees meet the eligibility requirements for medical benefits and approximately 15 retirees and 83 active employees meet the eligibility requirements for life insurance benefits. The plan does not issue a separate financial report.

Annual OPEB Costs

The City's fiscal 2012 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid, on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of thirty years. The City's annual OPEB cost for the year ending June 30, 2012 including the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2011 is as follows:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

Annual Required Contribution (ARC)	\$ 756,363
Interest on Net OPEB obligation (NOO)	55,771
NOO amortization adjustment to ARC	<u>(82,108)</u>
Annual OPEB cost	730,026
Contributions made	<u>(322,177)</u>
Increase in Net OPEB obligation	407,849
Net OPEB obligation - beginning of year	<u>1,394,277</u>
Net OPEB obligation - end of year	<u>\$ 1,802,126</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for years ending June 30, 2012, 2011 and 2010 are as follows:

Fiscal Year <u>Ended</u>	Annual <u>OPEB Cost</u>	Percentage of OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>
6/30/2012	\$ 730,026	44.13%	\$1,802,126
6/30/2011	\$ 786,505	45.16%	\$1,394,277
6/30/2010	\$ 797,199	34.94%	\$ 962,980

The City's net OPEB obligation as of June 30, 2012 is recognized as a liability in these financial statements.

Funded Status and Funding Progress for OPEB

The funded status of the plan as of July 1, 2011, the date of the most recent actuarial valuation update is as follows:

Actuarial Accrued Liability (AAL)	\$ 6,241,717
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 6,241,717</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 14,703,276
UAAL as a percentage of covered payroll	42.5%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. The total cost of providing post-employment benefits is projected, taking into account assumptions about current claim cost, turnover, mortality, health care trends, and other actuarial assumptions. 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 to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

Actuarial Methods and Assumptions for OPEB

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. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2011 actuarial 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 actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend of 9.0% reduced by 0.5% decrements to an ultimate 5.0% long-term rate for all healthcare benefits after eight years. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is a level dollar amortization over maximum allowable period of thirty years on a closed group basis. This has been calculated assuming the amortization payment increases at a rate of 5.0% per year.

NOTE 9—LONG-TERM OBLIGATIONS

General Long-term Obligations

The changes in the City's long-term obligations for the year ended June 30, 2012 are as follows:

	Balance <u>7/1/2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2012</u>	Due Within <u>One Year</u>
Governmental activities:					
Bonds payable	\$ 25,684,615		\$(2,417,512)	\$ 23,267,103	\$ 2,363,130
Capital leases payable	603,363	\$ 140,258	(246,798)	496,823	205,900
Compensated absences	1,595,875	185,153	(132,690)	1,648,338	15,000
Estimated liability for landfill postclosure care costs	1,750,000		(125,000)	1,625,000	125,000
Total governmental activities	<u>\$ 29,633,853</u>	<u>\$ 325,411</u>	<u>\$(2,922,000)</u>	<u>\$ 27,037,264</u>	<u>\$ 2,709,030</u>
Business-type activities:					
Bonds payable	\$ 14,583,286	\$ 7,810,000	\$(8,800,803)	\$ 13,592,483	\$ 894,691
Compensated absences	83,241	7,163	(1,793)	88,611	
Total business-type activities	<u>\$ 14,666,527</u>	<u>\$ 7,817,163</u>	<u>\$(8,802,596)</u>	<u>\$ 13,681,094</u>	<u>\$ 894,691</u>

Payments on the general obligation bonds, capital leases and landfill postclosure care costs of the governmental activities are paid out of the General Fund. Payments on the remaining general obligation bonds of the business-type activities are paid out of the Water and Sewer Funds. Compensated absences will be paid from the fund where the employee's salary is paid.

General Obligation Bonds

Governmental Activities

Bonds payable at June 30, 2012 are comprised of the following individual issues:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

	Original Issue Amount	Interest Rate	Final Maturity Date	Balance at 6/30/12
1998 Road improvement bonds	\$ 1,000,000	3.9-5.0%	August 2013	\$ 130,000
1999 High Street Corridor bonds	1,300,000	4.5-5.25%	August 2019	520,000
2000 New City Hall bonds	1,400,000	4.75-5.25%	January 2021	660,000
2000 Plaza Upgrade bonds	475,000	4.75-5.125%	January 2015	90,000
2001 Landfill Cleanup bonds	750,000	4.125-4.80%	August 2016	250,000
2001 New City Hall bonds	450,000	4.125-4.80%	August 2016	150,000
2005 Capital Improvement bonds	1,395,355	4.0-5.0%	August 2015	554,900
2006 Police Station bonds	3,426,127	4.0-5.0%	August 2021	2,280,000
1996 School Bond bonds	5,300,000	5.625-5.75%	August 2016	1,325,000
1999 Kindergarten bonds	310,000	4.50-5.25%	August 2019	120,000
2008 School land bonds	1,338,545	4.00-5.25%	August 2018	935,000
2009 School bonds	18,953,000	3.73%	January 2030	16,252,203
Totals				<u>\$ 23,267,103</u>

Debt service requirements to retire general obligation bonds outstanding at June 30, 2012 are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 2,363,130	\$ 500,242	\$ 2,863,372
2014	2,314,687	495,938	2,810,625
2015	2,195,430	490,179	2,685,609
2016	2,146,757	483,630	2,630,387
2017	1,934,652	479,468	2,414,120
2018-2022	6,649,698	2,647,834	9,297,532
2023-2027	3,819,364	3,352,636	7,172,000
2028-2030	1,843,385	2,459,214	4,302,599
Total	<u>\$ 23,267,103</u>	<u>\$ 10,909,141</u>	<u>\$ 34,176,244</u>

As included on the Statement of Activities (Exhibit B), interest for the year ended June 30, 2012 was \$440,744 on general obligation debt for governmental activities.

Business-type Activities

Bonds payable at June 30, 2012 are comprised of the following individual issues:

	Original Issue Amount	Interest Rate	Maturity Date	Balance at 6/30/12
<u>Water Fund:</u>				
Water High Lift Project bonds	\$ 650,000	3.4725%	October 2016	\$ 216,667
Water treatment plant upgrade bonds	1,843,500	4.25-5.25%	January 2028	1,465,000
Water treatment plant bonds	5,000,000	3.488%	April 2028	4,322,864
				<u>6,004,531</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

Sewer Fund:

Wastewater refunding bonds	\$ 7,810,000	2.0-4.0%	January 2026	7,105,000
Wastewater treatment facility bonds	524,944	2.952%	January 2029	482,952
				<u>7,587,952</u>
				<u>\$ 13,592,483</u>

Debt service requirements to retire general obligation bonds for business-type activities at June 30, 2012 are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 894,691	\$ 344,599	\$ 1,324,467
2014	892,300	424,710	1,301,975
2015	895,173	399,846	1,279,552
2016	898,316	369,609	1,257,203
2017	911,741	334,094	1,245,835
2018-2022	4,378,909	1,257,533	5,636,442
2023-2027	4,077,570	527,921	4,605,491
2028	643,783	25,703	669,486
Total	<u>\$ 13,592,483</u>	<u>\$ 3,684,015</u>	<u>\$ 17,320,451</u>

The State of New Hampshire annually reimburses the City for its share of sewer related debt service payments. For the year ended June 30, 2012, the reimbursement was \$186,421 in the Sewer Fund.

As included on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds (Exhibit F), interest expense for the year ended June 30, 2012 was \$478,959 on general obligation debt for business-type activities.

Capital Lease Obligations

Capital lease obligations represent lease agreements entered into for the financing of equipment acquisitions. These contracts are subject to cancellation should funds not be appropriated to meet payment obligations. Amounts are annually budgeted in the applicable function. The following are the individual capital lease obligations of the governmental activities at June 30, 2012:

Equipment due in annual installments of \$30,465, including interest at 4.84%, through December 2013	\$ 56,779
Equipment due in annual installments of \$88,304, including interest at 3.40%, through March 2013	85,401
Equipment due in annual installments of \$30,980, including interest of 3.40%, through December 2016	140,258
Equipment due in annual installments of \$35,255, including interest of 5.02%, through October 2014	95,971

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

Vehicle due in annual installments of \$11,620, including
interest at 5.29%, through December 2012 11,036

Equipment due in annual installments of \$29,926, including
interest at 4.374%, through October 2015 107,378
\$ 496,823

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2012 are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 205,900	\$ 20,649	\$ 226,549
2014	114,352	12,274	126,626
2015	88,998	7,163	96,161
2016	57,613	3,293	60,906
2017	29,960	1,020	30,980
Total	<u>\$ 496,823</u>	<u>\$ 44,399</u>	<u>\$ 541,222</u>

NOTE 10—ADVANCE REFUNDING OF DEBT

During the year ending June 30, 2012, the City issued \$7,810,000 of general obligation bonds with an interest rate of 2.0% - 4.0% in the Sewer Fund to advance refund \$7,743,470 of outstanding bonds (old debt) with an interest rate of 3.488%. The net proceeds were used to retire the old debt of \$7,743,470 entirely. As a result this old debt is considered to be defeased, and the liability for those bonds has been removed from the balance sheet.

The advance refunding resulted in the recognition of an economic gain (difference between the present value of the old and new debt service payments) of \$299,307 in the Sewer Fund. In effect, the City reduced its aggregate debt service payments by \$370,757 over the next fifteen years.

NOTE 11—LANDFILL POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the City place a final cover on its closed landfill site and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The City's landfill stopped accepting solid waste during 1981. During the closure of the landfill by the City, groundwater contamination was detected and the site was named a Superfund site. During September 1995, the City and several potential responsible parties entered into an agreement with the United States Environmental Protection Agency and the State of New Hampshire for the cleanup of the landfill site requiring groundwater sampling and other remedial action service maintenance for thirty years. The annual maintenance costs are to be shared among the settling parties, and the City is responsible for approximately \$125,000 per year.

An estimated liability has been recorded based on the future post-closure care costs that will be incurred. The estimated liability for landfill post-closure care costs has a balance of \$1,625,000 as of June 30, 2012. The estimated total current cost of the landfill post-closure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfill were acquired

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

as of June 30, 2012. However, the actual cost of post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The remaining postclosure care costs are expected to be financed through annual appropriations. The following is a summary of changes in the estimated liability for postclosure care costs for the year ended June 30, 2012:

Balance - July 1, 2011	\$ 1,750,000
Expenditures recognized in the General Fund	(105,008)
Net change in estimated liability for post-closure care costs	(19,992)
Balance - June 30, 2012	<u>\$ 1,625,000</u>

NOTE 12—INTERFUND BALANCES AND TRANSFERS

The City has combined the cash resources of its governmental and proprietary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is recorded in the specific fund as an interfund balance. Interfund balances at June 30, 2012 are as follows:

	Due from			Totals
	General Fund	Nonmajor Governmental Funds	Sewer Fund	
Due to General Fund		\$ 320,134	\$ 77,393	\$ 397,527
Nonmajor Governmental Funds	\$ 128,958			128,958
Water Fund	365,154			365,154
Solid Waste Fund	20,595			20,595
Agency Funds	67,422			67,422
	<u>\$ 582,129</u>	<u>\$ 320,134</u>	<u>\$ 77,393</u>	<u>\$ 979,656</u>

During the year, several interfund transactions occurred between funds. The various transfers were made in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2012 are as follows:

	Transfer from		Totals
	General Fund	Nonmajor Governmental Funds	
Transfer to General Fund		\$ 9,456	\$ 9,456
Nonmajor Governmental Funds	\$ 126,949		126,949
	<u>\$ 126,949</u>	<u>\$ 9,456</u>	<u>\$ 136,405</u>

NOTE 13—RESTRICTED NET ASSETS

Net assets are restricted for specific purposes as follows:

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

	Governmental Activities
Permanent Funds - Endowments	\$ 193,749
Permanent Funds - Income	14,184
Capital Projects	467,391
Grants	47,158
	<u>722,482</u>
Less unexpended bond proceeds	<u>(467,391)</u>
	<u><u>\$ 255,091</u></u>

NOTE 14—COMPONENTS OF FUND BALANCE

The components of the City's fund balance for its governmental funds at June 30, 2012 are as follows:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable for:			
Prepaid expenses	\$ 19,921		\$ 19,921
Endowments		\$ 193,749	193,749
Restricted for:			
Capital Projects		467,391	467,391
Endowments		14,184	14,184
Grants		47,158	47,158
Committed for:			
Capital Reserve	270,940		270,940
Landfill Trust	170,554		170,554
Encumbrances	176,102		176,102
Assigned for:			
Conservation		78,500	78,500
Cable Communications		7,375	7,375
School operations		120,686	120,686
Food service operations		3,337	3,337
Encumbrances	26,274		26,274
Designated to offset subsequent fiscal year tax rate	350,000		350,000
Unassigned for:			
General Fund	3,232,783		3,232,783
	<u>\$ 4,246,574</u>	<u>\$ 932,380</u>	<u>\$ 5,178,954</u>

NOTE 15—COMMITMENTS

The City entered into a long-term contract with an independent company to provide solid waste and recycling collection and disposal services. This contract is effective for the period January 1, 2011 through June 30, 2015. Terms of the agreement include minimum payments and a bi-annual fuel adjustment based on the average cost of diesel fuel for the previous six months.

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

During the year ended June 30, 2012, the City expended \$288,814 and \$120,060 for solid waste and recycling services, respectively, under the terms of the agreement. The minimum future payments for the next three years are as follows:

Year Ending <u>June 30,</u>	Solid Waste Collection <u>and Disposal</u>	Recycling Collection <u>and Disposal</u>	<u>Totals</u>
2013	\$ 297,250	\$ 141,288	\$ 438,538
2014	308,013	146,160	449,301
2015	318,775	151,326	470,101
	<u>\$ 924,038</u>	<u>\$ 438,774</u>	<u>\$ 1,357,940</u>

NOTE 16—CONTINGENT LIABILITIES

Litigation

There are various claims and suits pending against the City, which arise in the normal course of the City's activities. In the opinion of legal counsel and City management, the potential claims against the City, which are not covered by insurance are immaterial and would not affect the financial position of the City.

Federal Grants

The City participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amounts, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 17—SUBSEQUENT EVENTS

Bond Resolutions

During September 2012, the Council passed a bond resolution in the amount of \$4,770,000 for the purpose of infrastructure improvements in the downtown area and replacement of five HVAC units in school buildings.

During September 2012, the Council passed a resolution authorizing the use of unexpended school bond proceeds for window replacement and asbestos removal in school facilities.

During December 2012, the Council passed a bond resolution in the amount of \$1,000,000 for the purpose of infrastructure improvements in the downtown area, the rehabilitation of the Somersworth/Berwick bridge, and the replacement of HVAC units in school buildings.

Bond Anticipation Note

During October 2012, the City secured a bond anticipation note line of credit of \$4,770,000 with an interest rate of 1.06% and maturity date of July 31, 2013. As of February 12, 2013, the City has drawn down \$50,132 against this line of credit.

SCHEDULE 1
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Taxes	\$ 21,098,781	\$ 21,098,781	\$ 21,063,102	\$ (35,679)
Licenses and permits	1,394,625	1,394,625	1,352,623	(42,002)
Intergovernmental	9,758,012	9,758,012	9,982,355	224,343
Charges for services	2,044,012	2,152,593	1,873,564	(279,029)
Interest income	20,000	20,000	19,031	(969)
Miscellaneous	247,250	247,250	378,295	131,045
Total Revenues	<u>34,562,680</u>	<u>34,671,261</u>	<u>34,668,970</u>	<u>(2,291)</u>
Expenditures:				
Current operations:				
Elected leadership	111,647	111,647	111,238	409
City management	292,620	302,620	297,942	4,678
Finance and administration	1,101,781	1,101,781	1,039,918	61,863
Development services	851,963	851,963	726,081	125,882
Fire and rescue	1,835,591	1,862,287	1,820,503	41,784
Police	2,980,376	3,014,351	3,007,415	6,936
Public works and utilities	1,927,693	1,927,693	1,818,307	109,386
School	24,091,975	24,200,556	24,151,684	48,872
Other	275,570	265,570	195,570	70,000
Capital outlay	104,602	104,602	103,810	792
Debt service:				
Principal retirement	680,000	680,000	680,000	-
Interest and fiscal charges	239,710	239,710	239,710	-
Total Expenditures	<u>34,493,528</u>	<u>34,662,780</u>	<u>34,192,178</u>	<u>470,602</u>
Excess revenues over expenditures	<u>69,152</u>	<u>8,481</u>	<u>476,792</u>	<u>468,311</u>
Other financing sources (uses):				
Transfers in	23,000	23,000	31,456	8,456
Transfers out	(142,152)	(142,152)	(142,152)	-
Total other financing sources (uses)	<u>(119,152)</u>	<u>(119,152)</u>	<u>(110,696)</u>	<u>8,456</u>
Net change in fund balance	(50,000)	(110,671)	366,096	476,767
Fund balance at beginning of year				
- Budgetary Basis	<u>4,247,323</u>	<u>4,247,323</u>	<u>4,247,323</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 4,197,323</u>	<u>\$ 4,136,652</u>	<u>\$ 4,613,419</u>	<u>\$ 476,767</u>

See accompanying notes to the required supplementary information

SCHEDULE 2

CITY OF SOMERSWORTH, NEW HAMPSHIRE

Schedule of Funding Progress for Other Post-Employment Benefits

For the Year Ended June 30, 2012

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Projected Unit Credit</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2009	\$ -	\$ 6,474,134	\$ 6,474,134	0%	\$ 14,912,999	43.4%
7/1/2011	\$ -	\$ 6,241,717	\$ 6,241,717	0%	\$ 14,703,276	42.5%

See accompanying notes to the required supplementary information

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2012

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund (Schedule 1) are reported on the basis budgeted by the City. Those amounts differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). Property tax budgetary revenues are recognized when levied rather than when susceptible to accrual. Budgetary expenditures were adjusted for encumbrances. Budgetary revenues and expenditures were adjusted for capital lease transactions, non-budgetary activity, and budgetary transfers in and out as follows:

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Per Exhibit D	\$ 35,055,913	\$ 34,716,634
Difference in property taxes meeting susceptible to accrual criteria	(161,216)	
Encumbrances - June 30, 2011		(442,622)
Encumbrances - June 30, 2012		202,376
Budgetary transfers in and out	22,000	142,152
Capital lease transactions	(140,258)	(140,258)
Non-budgetary revenues and expenditures	(76,013)	(143,952)
Per Schedule 1	<u>\$ 34,700,426</u>	<u>\$ 34,334,330</u>

NOTE 2—BUDGETARY FUND BALANCE

The components of the budgetary fund balance for the General Fund are as follows:

Nonspendable for:	
Prepaid expenses	\$ 19,921
Assigned for:	
Designated to offset subsequent fiscal year tax rate	350,000
Unassigned for:	
General operations	4,243,498
	<u>\$ 4,613,419</u>

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
June 30, 2012

NOTE 3—SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS

In accordance with GASB Statement #45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, the City is required to disclose the schedule of funding progress for each of the three most recent actuarial valuations. The City implemented the provisions of GASB Statement #45 during the year ended June 30, 2009. Accordingly, the funding progress has only been presented for the two recent actuarial valuation reports. Additional disclosures will be made as the information becomes available.

SCHEDULE I
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
DEPARTMENT OF AGRICULTURE		
Pass Through Payments from New Hampshire		
Department of Education		
School Breakfast Program	10.553	\$ 70,123
National School Lunch Program	10.555	290,146
Special Milk Program for Children	10.556	542
Total Department of Agriculture		<u>360,811</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Pass Through Payments from Community		
Development Finance Authority		
Community Development Block Grants/State's Program and		
Non-Entitlement Grants in Hawaii	14.228	
#09-218-CDHS		<u>169,608</u>
Pass Through Payments from Clean Air		
Cool Planet Inc.		
Sustainable Communities Regional Planning Grant Program	14.703	
#FR-5396-N-03		<u>1,705</u>
Total Department of Housing and Urban Development		<u>171,313</u>
DEPARTMENT OF THE INTERIOR		
Pass Through Payments from New Hampshire		
Division of Historical Resources		
Historic Preservation Fund Grants-In-Aid	15.904	
#CLG-33-10-21936-02		<u>22,260</u>
Total Department of the Interior		<u>22,260</u>
DEPARTMENT OF JUSTICE		
Pass Through Payments from the County of Strafford,		
New Hampshire		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	
#2011-H3118-NH-DJ		<u>5,264</u>
Total Department of Justice		<u>5,264</u>
DEPARTMENT OF EDUCATION		
Pass Through Payments from New Hampshire		
Department of Education		
Title I Grants to Local Educational Agencies	84.010	
#10167		10,182
#20300		22,547
#20167		25,974
#20299		16,285
#20131		570,204
#20330		13,678
#10131		18,768
#20920		6,000
		<u>683,638</u>

See notes to schedule of expenditures of federal awards

SCHEDULE I
CITY OF SOMERSWORTH, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2012

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
DEPARTMENT OF EDUCATION (CONTINUED)		
Career and Technical Education - Basic Grants to States	84.048	
#15053		21,450
#25034		105,941
#25053		36,991
#15034		13,661
		<u>178,043</u>
 Twenty-First Century Community Learning Centers	 84.287	
#25326		<u>84,979</u>
 Educational Technology State Grants	 84.318	
#24563		<u>8,921</u>
 English Language Acquisition State Grants	 84.365	
#807		<u>5,313</u>
 Improving Teacher Quality State Grants	 84.367	
#14864		11,424
#25440		10,325
#14931		19,069
#25414		7,200
#24931		125,163
		<u>173,181</u>
 Title I Grants to Local Educational Agencies, Recovery Act	 84.389	
#22831		4,988
#22821		1,760
#00167		5,000
#84853		110,594
		<u>122,342</u>
 Education Jobs Fund	 84.410	
#18265		<u>208,437</u>
Total Department of Education		<u>1,464,854</u>
DEPARTMENT OF HOMELAND SECURITY		
Pass Through Payments from New Hampshire Department of Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	
#FEMA-4026-DR-NH		<u>40,434</u>
 Homeland Security Grant Program	 97.067	
		<u>34,980</u>
Total Department of Homeland Security		<u>75,414</u>
 Total Expenditures of Federal Awards		<u>\$ 2,099,916</u>

See notes to schedule of expenditures of federal awards

CITY OF SOMERSWORTH, NEW HAMPSHIRE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012

NOTE 1—GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Somersworth, New Hampshire. The City of Somersworth's reporting entity is defined in Note 1 to the City's basic financial statements.

NOTE 2—BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements.

NOTE 3—NON-CASH TRANSACTIONS

The City participates in the USDA Food Distribution Program which is a non-cash program. The value of commodities received by the City is \$23,819 and has been reported on the Schedule of Expenditures of Federal Awards as part of the National School Lunch Program.

NOTE 4—RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The recognition of expenditures of federal awards has been reported in the City's basic financial statements as intergovernmental revenues in the Major and Nonmajor Funds as follows:

Major Funds:	
General Fund	\$ 66,616
Water Fund	8,304
Nonmajor Funds	<u>2,001,177</u>
	<u>\$ 2,076,097</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of the governmental activities, 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, 2012, which collectively comprise the City of Somersworth, New Hampshire's basic financial statements and have issued our report thereon dated February 12, 2013. 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.

Internal Control Over Financial Reporting

Management of the City of Somersworth, New Hampshire is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Somersworth, New Hampshire's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Somersworth, New Hampshire's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Somersworth, New Hampshire's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Somersworth, New Hampshire's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which

could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Somersworth, New Hampshire in a separate letter dated February 12, 2013.

This report is intended solely for the information and use of management, the Honorable Mayor, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jachon Clukay & Company PC

February 12, 2013

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the City of Somersworth, New Hampshire's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Somersworth, New Hampshire's major federal programs for the year ended June 30, 2012. The City of Somersworth, New Hampshire's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Somersworth, New Hampshire's management. Our responsibility is to express an opinion on the City of Somersworth, New Hampshire's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Somersworth, New Hampshire's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Somersworth, New Hampshire's compliance with those requirements.

In our opinion, the City of Somersworth, New Hampshire complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the City of Somersworth, New Hampshire is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Somersworth, New Hampshire's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of

expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Somersworth, New Hampshire's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Honorable Mayor, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vachon Clukay & Company PC

February 12, 2013

**City of Somersworth, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses? _____yes X none reported

Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses? _____yes X none reported

Type of auditor's report issued on compliance
for major programs: unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? _____yes X no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
84.010 & 84.389	Title I, Part A Cluster
84.048	Career and Technical Education - Basic Grants to States

Dollar threshold used to distinguish between Type A and B program: \$ 300,000.

Auditee qualified as low-risk auditee? _____yes X no

Section II--Financial Statement Findings

There were no findings relating to the financial statements required to be reported by GAGAS.

Section III--Federal Award Findings and Questioned Costs

There were no findings and questioned costs required to be reported under OMB Circular A-133 .510(a).