

**HAMPSHIRE COUNCIL
OF GOVERNMENTS**

Annual Financial Statements

For the Year Ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Council
Hampshire Council of Governments
Northampton, Massachusetts

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 Hampshire Council of Governments (the Council), as of and for the year ended June 30, 2009 (except for the Hampshire County Group Insurance Trust, which is as of and for the year ended March 31, 2009), which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hampshire Council of Government's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements referred to above include only the primary government of the Hampshire Council of Government, which consists of all funds, organizations,

Additional Offices:

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

institutions, agencies, departments and offices that comprise the Council's legal entity. The financial statements do not include financial data for the Council's legally separate component unit, Hampshire Care, which accounting principles generally accepted in the United State of America require to be reported with the financial data of the Council's primary government. As a result, the primary government financial statements do not purport to, and do not fairly present, the financial position of the reporting entity of the Hampshire Council of Government as of June 30, 2009 and the changes in its financial position and its cash flows, where applicable, for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the primary government of the Hampshire Council of Government, as of June 30, 2009, (except for the Hampshire Group Insurance Trust, which is as of and for the year ended March 31, 2009) and the respective changes in financial position and cash flows, where applicable, thereof for the year(s) then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis appearing on the following pages is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Melanson Heath + Company P.C.

Greenfield, Massachusetts
January 14, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Hampshire Council of Governments, we offer readers this narrative overview and analysis of the financial activities of the Hampshire Council of Governments for the fiscal year ended June 30, 2009.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by assessments 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 regional management, purchasing, building preservation, economic development, human services, regional services office, Board of Councilors, electricity aggregation, finance office, and public safety. The business-type activities include Hampshire County Group Insurance Trust 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:

The Hampshire County Group Insurance Trust is presented as a business-type activity in the government-wide financial statements.

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 Hampshire County Group Insurance Trust operations, which is considered to be a major fund.

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 Council'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 accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 14,333,704 (i.e., net assets), an increase of \$ 4,726,961 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 1,339,851, an increase of \$ 279,338 in comparison with the prior year.
- At the end of the current fiscal year, unreserved and undesignated fund balance for the general fund was \$ (142,450), an increase of \$ 38,995 in comparison with the (reclassified) prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for fiscal years ending June 30, 2009 and June 30, 2008, except for the Hampshire County Group Insurance Trust, which is as of March 31, 2009 and March 31, 2008.

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 2,409,035	\$ 2,055,463	\$ 17,690,080	\$ 12,572,683	\$ 20,099,115	\$ 14,628,146
Capital assets	125,468	133,672	-	-	125,468	133,672
Total assets	2,534,503	2,189,135	17,690,080	12,572,683	20,224,583	14,761,818
Long-term liabilities outstanding	105,234	101,538	27,739	16,510	132,973	118,048
Other liabilities	1,079,748	1,004,685	4,678,158	4,032,342	5,757,906	5,037,027
Total liabilities	1,184,982	1,106,223	4,705,897	4,048,852	5,890,879	5,155,075
Net assets:						
Invested in capital assets, net	103,446	96,358	-	-	103,446	96,358
Restricted	222,092	142,164	-	-	222,092	142,164
Unrestricted	1,023,983	844,390	12,984,183	8,523,831	14,008,166	9,368,221
Total net assets	\$ 1,349,521	\$ 1,082,912	\$ 12,984,183	\$ 8,523,831	\$ 14,333,704	\$ 9,606,743

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 3,971,310	\$ 3,594,725	\$ 41,383,821	\$ 35,799,049	\$ 45,355,131	\$ 39,393,774
Operating grants and contributions	258,725	135,727	-	-	258,725	135,727
Interest and miscellaneous	93,217	111,856	260,787	418,328	354,004	530,184
Total revenues	4,323,252	3,842,308	41,644,608	36,217,377	45,967,860	40,059,685
Expenses:						
Regional management	74,465	122,007	-	-	74,465	122,007
Purchasing	90,693	111,027	-	-	90,693	111,027
Building preservation	34,299	31,524	-	-	34,299	31,524
Human services	306,787	146,692	-	-	306,787	146,692
Electricity aggregation	3,242,997	3,077,908	-	-	3,242,997	3,077,908
Regional services office	39,355	39,394	-	-	39,355	39,394
Hampshire inspection program	90,253	85,120	-	-	90,253	85,120
Board of Councilors	51,436	39,203	-	-	51,436	39,203
Finance office	114,215	343,336	-	-	114,215	343,336
Public safety	12,143	9,064	-	-	12,143	9,064
Hampshire County Group Insurance Trust	-	-	37,184,256	34,184,438	37,184,256	34,184,438
Total expenses	4,056,643	4,005,275	37,184,256	34,184,438	41,240,899	38,189,713
Change in net assets	266,609	(162,967)	4,460,352	2,032,939	4,726,961	1,869,972
Net assets - beginning of year	1,082,912	1,245,879	8,523,831	6,490,892	9,606,743	7,736,771
Net assets - end of year	\$ 1,349,521	\$ 1,082,912	\$ 12,984,183	\$ 8,523,831	\$ 14,333,704	\$ 9,606,743

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Resources of the governmental activities are not used to finance costs related to business-type activities; therefore, the net assets of the governmental activities should be viewed independently from business-type activities.

At the close of the most recent fiscal year, total net assets were \$ 14,333,704, an increase of \$ 4,726,961 from the prior year.

A portion of net assets, \$ 103,446 reflects our investment in capital assets (e.g., buildings, machinery and equipment). These capital assets are used to provide services to members; consequently, these assets are not available for future spending.

An additional portion of net assets, \$ 222,092 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 1,023,983 (governmental) and \$ 12,984,183 (business-type), may be used to meet the government's ongoing obligations to members and creditors.

Governmental activities. Governmental activities for the year resulted in an increase in net assets of \$ 266,609. Key elements of this change are as follows:

- Depreciation expense (not budgeted for) of \$ (8,204).
- Period change in compensated absences of \$ (14,260).
- Period change in capital leases of \$ 9,735.
- Other governmental funds increase of \$ 279,338 which is further discussed in the governmental funds section.

Business-Type Activities. Business-type activities for the year resulted in an increase in net assets of \$ 4,460,352 for the Hampshire County Group Insurance Trust. This increase was primarily the result of increased premiums, in excess of an increase in claims paid.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 1,339,851 an increase of \$ 279,338 in comparison with the prior year. This increase was attributable to:

- Electricity program revenues in excess of expenses and refunds of \$ 175,203.
- Trust fund contribution of \$ 75,000.
- Grant and other trust fund revenue in excess of expenses of \$ 4,392.
- General fund increase of \$ 24,743 which is explained below.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was a deficit of \$ (142,450) while total fund balance was \$ 229,872.

The fund balance of the general fund increased by \$ 24,743 during the current fiscal year. Key factors in this change are as follows:

- Actual revenues were more than budget by \$ 73,584 due to an increase in charges for services revenue.
- Expenditures, on a budgetary basis, were less than anticipated by \$ 98,054 due primarily to the Executive Director working the majority of the year at Hampshire Care.

- The impact of this was offset by budgeting expenditures over revenues of \$ (116,555).
- Use of other sources anticipated in current year budget of \$ (30,340).

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 Hampshire County Group Insurance Trust at the end of the year amounted to \$ 12,984,183 an increase of \$ 4,460,352 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

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 17,902. The largest portion of this increase (\$ 12,685) was for computer support expenses, which was to be funded from a designated general fund fund balance (Finance Committee Reserve Fund).

F. CAPITAL ASSET ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$ 125,468 (net of accumulated depreciation), a decrease of \$ (8,204) from the prior year (resulting from annual depreciation of \$ 8,204). This investment in capital assets includes leasehold improvements, equipment and furnishings.

Additional information on capital assets can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Hampshire Council of Government'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:

Mr. John Lillis, Director of Finance
Hampshire Council of Governments
County Courthouse, 99 Main Street
Northampton, MA 01060

HAMPSHIRE COUNCIL OF GOVERNMENTS

STATEMENT OF NET ASSETS

JUNE 30, 2009

(EXCEPT FOR THE HAMPSHIRE COUNTY GROUP INSURANCE TRUST,
WHICH IS AS OF MARCH 31, 2009)

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 1,839,872	\$ 14,299,574	\$ 16,139,446
Restricted cash	239,435	-	239,435
Receivables:			
Departmental and other	304,458	754,846	1,059,304
Intergovernmental	20,269	-	20,269
Due to/from other funds, net	5,001	2,635,660	2,640,661
Noncurrent:			
Capital assets, net of accumulated depreciation	<u>125,468</u>	<u>-</u>	<u>125,468</u>
TOTAL ASSETS	2,534,503	17,690,080	20,224,583
LIABILITIES			
Current:			
Warrants payable	17,075	-	17,075
Accounts payable	88,006	-	88,006
Electricity refunds payable	203,954	-	203,954
Claims settlement payable	-	488,400	488,400
Accrued payroll and withholdings	16,818	-	16,818
Due to Hampshire Care	504,646	-	504,646
Deposits held in escrow	51,667	1,737,051	1,788,718
Line of credit	186,767	-	186,767
Other liabilities	251	117,908	118,159
Accrued claims payable (IBNR)	-	2,334,799	2,334,799
Current portion of long-term liabilities			
Capital lease	10,564	-	10,564
Noncurrent:			
Capital lease, net of current portion	11,458	-	11,458
Compensated absences	<u>93,776</u>	<u>27,739</u>	<u>121,515</u>
TOTAL LIABILITIES	1,184,982	4,705,897	5,890,879
NET ASSETS			
Invested in capital assets, net of related debt	103,446	-	103,446
Restricted for:			
State and federal grants	69,628	-	69,628
Permanent funds (expendable)	152,464	-	152,464
Unrestricted	<u>1,023,983</u>	<u>12,984,183</u>	<u>14,008,166</u>
TOTAL NET ASSETS	\$ <u>1,349,521</u>	\$ <u>12,984,183</u>	\$ <u>14,333,704</u>

See notes to financial statements.

HAMPSHIRE COUNCIL OF GOVERNMENTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

(EXCEPT FOR THE HAMPSHIRE COUNTY GROUP INSURANCE TRUST, WHICH IS FOR THE YEAR ENDED MARCH 31, 2009)

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:						
Regional management	\$ 74,465	\$ 167,844	\$ -	\$ 93,379	\$ -	\$ 93,379
Purchasing	90,693	67,770	-	(22,923)	-	(22,923)
Building preservation	34,299	122,745	-	88,446	-	88,446
Human services	306,787	52,459	258,725	4,397	-	4,397
Electricity aggregation	3,242,997	3,409,884	-	166,887	-	166,887
Regional services office	39,355	9,505	-	(29,850)	-	(29,850)
Hampshire inspection program	90,253	93,188	-	2,935	-	2,935
Board of Councilors	51,436	-	-	(51,436)	-	(51,436)
Finance office	114,215	38,928	-	(75,287)	-	(75,287)
Public safety	12,143	8,987	-	(3,156)	-	(3,156)
Total Governmental Activities	4,056,643	3,971,310	258,725	173,392	-	173,392
Business-Type Activities:						
Hampshire County Group Insurance Trust	37,184,256	41,383,821	-	-	4,199,565	4,199,565
Total Business-Type Activities	37,184,256	41,383,821	-	-	4,199,565	4,372,957
Total Primary Government	\$ 41,240,899	\$ 45,355,131	\$ 258,725			
General Revenues:						
Interest income				18,217	260,787	279,004
Miscellaneous				75,000	-	75,000
Total general revenues				93,217	260,787	354,004
Change in Net Assets				266,609	4,460,352	4,726,961
Net Assets:						
Beginning of year				1,082,912	8,523,831	9,606,743
End of year				\$ 1,349,521	\$ 12,984,183	\$ 14,333,704

See notes to financial statements.

HAMPSHIRE COUNCIL OF GOVERNMENTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

	<u>General</u>	<u>Electricity Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 1,313,446	\$ 286,517	\$ 239,909	\$ 1,839,872
Restricted cash	50,285	189,150	-	239,435
Receivables:				
Departmental and other	6,946	297,512	-	304,458
Intergovernmental	-	-	20,269	20,269
Due from other funds	<u>-</u>	<u>412,373</u>	<u>-</u>	<u>412,373</u>
TOTAL ASSETS	<u>\$ 1,370,677</u>	<u>\$ 1,185,552</u>	<u>\$ 260,178</u>	<u>\$ 2,816,407</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 17,075	\$ -	\$ -	\$ 17,075
Accounts payable	-	88,006	-	88,006
Electricity refunds payable	-	203,954	-	203,954
Accrued payroll and withholding	7,595	4,072	5,151	16,818
Due to other funds	374,437	-	32,935	407,372
Due to related organizations	504,646	-	-	504,646
Deposits held in escrow	50,285	1,382	-	51,667
Line of credit	186,767	-	-	186,767
Other liabilities	<u>-</u>	<u>251</u>	<u>-</u>	<u>251</u>
TOTAL LIABILITIES	1,140,805	297,665	38,086	1,476,556
Fund Balances:				
Unreserved:				
Designated for other purposes	372,322	-	-	372,322
Undesignated, reported in:				
General fund	(142,450)	-	-	(142,450)
Special revenue funds	-	887,887	69,628	957,515
Permanent (expendable) funds	<u>-</u>	<u>-</u>	<u>152,464</u>	<u>152,464</u>
TOTAL FUND BALANCES	<u>229,872</u>	<u>887,887</u>	<u>222,092</u>	<u>1,339,851</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,370,677</u>	<u>\$ 1,185,552</u>	<u>\$ 260,178</u>	<u>\$ 2,816,407</u>

See notes to financial statements.

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

JUNE 30, 2009

TOTAL GOVERNMENTAL FUND BALANCES	\$ 1,339,851
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	125,468
• Long-term liabilities, including compensated absences and capital leases are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(115,798)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,349,521</u></u>

See notes to financial statements.

HAMPSHIRE COUNCIL OF GOVERNMENTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2009

	<u>General</u>	Electricity <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:				
Assessments	\$ 37,206	\$ -	\$ -	\$ 37,206
Charges for services	468,274	3,409,884	55,946	3,934,104
Intergovernmental	-	-	258,725	258,725
Investment income	7,741	6,973	3,503	18,217
Miscellaneous	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>75,000</u>
Total Revenues	513,221	3,416,857	393,174	4,323,252
Expenditures:				
Current:				
Regional management	66,261	-	-	66,261
Purchasing	89,390	-	-	89,390
Building preservation	34,299	-	-	34,299
Human services	-	-	302,488	302,488
Electricity aggregation	-	3,241,654	-	3,241,654
Regional services office	40,399	-	-	40,399
Hampshire inspection program	90,334	-	-	90,334
Board of Councilors	44,607	-	-	44,607
Finance office	122,339	-	-	122,339
Public safety	<u>849</u>	<u>-</u>	<u>11,294</u>	<u>12,143</u>
Total Expenditures	<u>488,478</u>	<u>3,241,654</u>	<u>313,782</u>	<u>4,043,914</u>
Net change in fund balance	24,743	175,203	79,392	279,338
Fund Equity, at Beginning of Year, as reclassified	<u>205,129</u>	<u>712,684</u>	<u>142,700</u>	<u>1,060,513</u>
Fund Equity, at End of Year	<u>\$ 229,872</u>	<u>\$ 887,887</u>	<u>\$ 222,092</u>	<u>\$ 1,339,851</u>

See notes to financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2009

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 279,338
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: 	
Depreciation	(8,204)
<ul style="list-style-type: none"> • Some expenses reported in the Statement of Activities, such as compensated absences and capital leases, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. 	
	<u>(4,525)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>266,609</u>

HAMPSHIRE COUNCIL OF GOVERNMENTS

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

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Assessments	\$ 37,206	\$ 37,206	\$ 37,206	\$ -
Charges for services	396,431	396,431	468,274	71,843
Investment income	6,000	6,000	7,741	1,741
Other sources	12,438	30,340	30,340	-
Total Revenues and Other Sources	452,075	469,977	543,561	73,584
Expenditures and Other Uses:				
Regional management	121,703	122,417	66,261	56,156
Purchasing	92,344	93,772	89,390	4,382
Building preservation	39,405	42,480	34,299	8,181
Regional service office	45,014	45,014	40,399	4,615
Hampshire inspection program	92,059	92,059	90,334	1,725
Board of Councilors	44,331	44,331	44,607	(276)
Finance office	127,774	140,459	122,339	18,120
Public safety	6,000	6,000	849	5,151
Total Expenditures and Other Uses	568,630	586,532	488,478	98,054
Excess electricity budgeted revenues	(136,527)	(136,527)	-	-
Excess revenues to fund surplus	19,972	19,972	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 55,083	\$ 171,638

See Independent Auditors' Report.

HAMPSHIRE COUNCIL OF GOVERNMENTS

PROPRIETARY FUND

STATEMENT OF NET ASSETS

MARCH 31, 2009

Hampshire County
Group Insurance
Trust

ASSETS

Current:

Cash and short-term investments	\$ 14,299,574
Member accounts receivable	754,846
Due from other funds	<u>2,635,660</u>

TOTAL ASSETS 17,690,080

LIABILITIES

Current:

Claims settlement payable	488,400
Member deposits	1,737,051
Other liabilities	117,908
Accrued claims payable (IBNR)	<u>2,334,799</u>
Total current liabilities	4,678,158

Noncurrent:

Accrued compensated absences	<u>27,739</u>
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TOTAL LIABILITIES 4,705,897

NET ASSETS

Unrestricted 12,984,183

TOTAL NET ASSETS \$ 12,984,183

See notes to financial statements.

HAMPSHIRE COUNCIL OF GOVERNMENTS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED MARCH 31, 2009

	Hampshire County Group Insurance Trust
Operating Revenues:	
Premiums	\$ <u>41,383,821</u>
Total Operating Revenues	41,383,821
Operating Expenses:	
Insurance claims	34,725,495
Administration	<u>2,458,761</u>
Total Operating Expenses	<u>37,184,256</u>
Operating Income	4,199,565
Nonoperating Revenues:	
Investment income	<u>260,787</u>
Total Nonoperating Revenues	<u>260,787</u>
Change in Net Assets	4,460,352
Net Assets at Beginning of Year	<u>8,523,831</u>
Net Assets at End of Year	\$ <u><u>12,984,183</u></u>

See notes to financial statements.

HAMPSHIRE COUNCIL OF GOVERNMENTS

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2009

Hampshire County
Group Insurance
Trust

Cash Flows From Operating Activities:

Receipts from members and users	\$ 41,052,926
Payments to vendors and employees	<u>(36,808,813)</u>

Net Cash Provided By Operating Activities	4,244,113
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Cash Flows From Noncapital Financing Activities:

Reimbursements (to)/from general operating bank accounts for payments in advance of premiums due, net	<u>(250,810)</u>
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Net Cash (Used For) Noncapital Financing Activities	(250,810)
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Cash Flows From Investing Activities:

Investment income	<u>260,787</u>
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Net Cash Provided By Investing Activities	<u>260,787</u>
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Net Change in Cash and Short-Term Investments	4,254,090
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Cash and Short Term Investments, Beginning of Year	<u>10,045,484</u>
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Cash and Short Term Investments, End of Year	<u><u>\$ 14,299,574</u></u>
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**Reconciliation of Operating Income to Net Cash
Provided By/(Used For) Operating Activities:**

Operating income	\$ 4,199,565
Adjustments to reconcile operating income to net cash provided by operating activities:	

Changes in assets and liabilities:

Accounts receivable	(612,497)
Claim settlement payable	113,010
Member deposits	281,602
Other liabilities	5,551
Compensated absences	11,229
Accrued claims payable (IBNR)	<u>245,653</u>

Net Cash Provided By Operating Activities	<u><u>\$ 4,244,113</u></u>
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See notes to financial statements.

HAMPSHIRE COUNCIL OF GOVERNMENTS

FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Agency Funds
<u>ASSETS</u>	
Cash and short-term investments	\$ <u>18,846</u>
Total Assets	\$ <u><u>18,846</u></u>
<u>LIABILITIES</u>	
Other liabilities	\$ <u>18,846</u>
Total Liabilities	\$ <u><u>18,846</u></u>

See notes to financial statements.

Hampshire Council of Governments

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Hampshire Council of Governments is authorized by and operates under the provisions of Chapter 34B, Section 20(b) of the Massachusetts General Laws, as amended. The Council's administrative office is located at the County Courthouse, 99 Main Street, Northampton, MA. As of June 30, 2009, the Council was composed of members from the cities and towns within Hampshire County.

Generally accepted accounting principles require these financial statements to present the primary government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2009, it was determined that Hampshire Care (the Council's long-term care facility) met the required GASB-14 criteria of component units; however their financial information was not available and is therefore not included in these financial statements.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by charges for services, member assessments and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services,

or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

The government reports the following major governmental funds:

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund are charges to members for insurance premiums. Operating expenses for proprietary funds include the cost of health insurance claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The government reports the following major proprietary fund:

- The *Hampshire County Group Insurance Trust* is used to account for the resources and outflows of the 62-unit member group insurance trust administered by the Hampshire Council of Governments.

D. Cash and Short-Term Investments

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under

the caption “cash and short-term investments”. The interest earnings attributable to each fund type is included under investment income.

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

E. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due from/to other funds”.

F. Capital Assets

Capital assets, which include property, plant and equipment are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Office equipment	5
Computer equipment	3

G. Compensated Absences

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

H. Fund Equity

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

I. Use of Estimates

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

2. **Stewardship, Compliance and Accountability**

A. Budgetary Basis

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

B. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 513,221	\$ 488,478
Recognize use of fund balance as funding source	30,340	-
Budgetary basis	<u>\$ 543,561</u>	<u>\$ 488,478</u>

C. Deficit Fund Equity

The General Fund undesignated fund balance was in deficit by \$ (142,450) at June 30, 2009. This deficit is expected to be eliminated by proceeds from the sale of Hampshire Care in July 2009.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk, as defined under GASB Statement No. 40, is the risk that in the event of a bank failure, the Council's deposits may not be returned to it. As of June 30, 2009, the Council's bank balance was comprised of the following

Collateralized	\$	250,593
Uncollateralized		1,336,853
State pool		<u>19,747</u>
Total	\$	<u><u>1,607,193</u></u>

As of March 31, 2009, all of the Council's Group Insurance Trust bank balance total of \$ 14,314,760 was held in an account considered to be a "state pool" and therefore not subject to custodial credit risk disclosure.

Massachusetts General Law Chapter 44, Section 55 limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess". The Council's deposits are within this limitation. At June 30, 2009, the Council did not have a deposit policy addressing custodial credit risk.

4. Restricted Cash and Deposits Held in Escrow

The Council maintains separate bank accounts for electricity customer deposits and funds required to be on deposit with ISO New England, through which the Council purchases electricity.

Balances at June 30, 2009 consist of the following:

	Restricted <u>Cash</u>	Escrow <u>Deposits</u>
Electricity customer deposits held in escrow	\$ 1,382	\$ 1,382
Funds on deposit for ISO New England	187,768	-
Performance bonds/other	285	285
Deposit for sale of Hampshire Care	<u>50,000</u>	<u>50,000</u>
Total	\$ <u><u>239,435</u></u>	\$ <u><u>51,667</u></u>

Electricity customer deposits may only be used to satisfy outstanding receivables in the event the contract with the customer is terminated. The amount of funds required to be on deposit for ISO purposes is based on an ISO formula (which will fluctuate with the volume of electricity purchased) and is required in order to continue purchasing electricity.

During fiscal year 2009 the Council received a deposit of \$ 50,000 from the Masonic Health Systems of Massachusetts, who was the successful bidder related to the sale of Hampshire Care, which is further described in Footnote 13.

In addition, the Group Insurance Trust collects an initial deposit from each member when they join the Trust. These deposits would be used to fund residual claims in the event the member withdraws from the Trust.

5. Interfund Fund Receivables/Payables

The Council maintains self-balancing funds; however, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. Although the total of interfund accounts balance throughout the year, the balance sheet of the Hampshire County Group Insurance Trust is presented at March 31, 2009 rather than June 30, 2009 and Hampshire Care, the Council's component unit is not presented at all. Consequently, a difference of \$ 2,640,661 exists in the accompanying balance sheets and statement of net assets.

The balances in all funds and component units as of June 30, 2009 are as follows:

	<u>Due From</u>	<u>Due To</u>
General fund	\$ -	\$ 374,437
Electricity fund	412,373	-
Special revenue fund	-	32,935
Hampshire Group Insurance Trust	136	-
Hampshire Care, Inc.	-	5,137
Total	<u>\$ 412,509</u>	<u>\$ 412,509</u>

6. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Leasehold improvements	\$ 109,782	\$ -	\$ -	\$ 109,782
Equipment - computer and communications	175,352	-	-	175,352
Equipment - other	16,855	-	-	16,855
Furnishings	<u>34,719</u>	<u>-</u>	<u>-</u>	<u>34,719</u>
Total capital assets, being depreciated	336,708	-	-	336,708
Less accumulated depreciation for:				
Leasehold improvements	(22,341)	(2,745)	-	(25,086)
Equipment - computer and communications	(130,575)	(4,975)	-	(135,550)
Equipment - other	(16,855)	-	-	(16,855)
Furnishings	<u>(33,265)</u>	<u>(484)</u>	<u>-</u>	<u>(33,749)</u>
Total accumulated depreciation	<u>(203,036)</u>	<u>(8,204)</u>	<u>-</u>	<u>(211,240)</u>
Governmental activities capital assets, net	<u>\$ 133,672</u>	<u>\$ (8,204)</u>	<u>\$ -</u>	<u>\$ 125,468</u>

All of the current year's depreciation was charged to regional management expense.

7. Warrants and Accounts Payable

Warrants payable represent 2009 expenditures paid by July 15, 2009 as permitted by law. Accounts payable represent additional 2009 expenditures paid after July 15, 2009.

8. Due to Hampshire Care

In order to meet certain depository requirements, the Council borrowed funds from Hampshire Care during fiscal year 2007. These liabilities were forgiven by the Council upon the sale of Hampshire Care in fiscal year 2010. (See Footnote 13)

At June 30, 2009, the amounts due to Hampshire Care were comprised of the following:

	<u>Funds borrowed</u>	<u>Interest earned on borrowed funds</u>	<u>Total due to Hampshire Care</u>
Funds used to increase the amount on deposit as required by ISO New England, through which the Council purchases electricity.	\$ 200,000	\$ 20,673	\$ 220,673
Funds used to purchase a certificate of deposit, which collateralized a line of credit obtained from Eastern Savings Bank.	<u>250,000</u>	<u>33,973</u>	<u>283,973</u>
Total	<u>\$ 450,000</u>	<u>\$ 54,646</u>	<u>\$ 504,646</u>

9. Line of Credit

In November 2006, the Council entered into a Demand Revolving Line of Credit Loan with Easthampton Savings Bank (ESB). The initial maximum loan amount of \$ 250,000 was required to be fully collateralized by a certificate of deposit with ESB. The Council obtained the certificate of deposit when the loan was executed with funds borrowed from Hampshire Care (a component unit). Under the agreement, ESB may increase the maximum loan amount to \$ 1 million, provided the Council increases the collateral to an equal amount.

Under the terms of the loan, principal and any accrued interest are due upon demand. In the absence of a demand, the loan calls for monthly payments of interest only, with any remaining unpaid principal balance due and payable on November 22, 2009. The loan carries an interest rate of 7% per annum. The loan was paid in full in July 2009.

At June 30, 2009, the line of credit had a balance due of \$ 186,767.

10. Capital Lease and Other Long-Term Obligations

The Council is the lessee of computer software under a capital lease expiring in fiscal year 2011. Future minimum lease payments under the capital lease consisted of the following as of June 30, 2009:

2010	\$ 12,438
2011	<u>12,438</u>
Total minimum lease payments	24,876
Less amount representing interest	<u>(2,854)</u>
Present Value of Minimum Lease Payments	<u>\$ 22,022</u>

The following summarizes the changes in long-term liabilities for fiscal year 2009:

	Beginning Balance <u>July 1, 2008</u>	Addition	Reduction	Ending Balance <u>June 30, 2009</u>	Less Current Portion	Equals Long-Term Portion <u>June 30, 2009</u>
<u>Governmental Activities</u>						
Capital lease	\$ 31,757	\$ -	\$ (9,735)	\$ 22,022	\$ (10,564)	\$ 11,458
Compensated absences	<u>79,516</u>	<u>14,260</u>	<u>-</u>	<u>93,776</u>	<u>-</u>	<u>93,776</u>
Totals	\$ <u>111,273</u>	\$ <u>14,260</u>	\$ <u>(9,735)</u>	\$ <u>115,798</u>	\$ <u>(10,564)</u>	\$ <u>105,234</u>
	Beginning Balance <u>April 1, 2008</u>	Addition	Reduction	Ending Balance <u>March 31, 2009</u>	Less Current Portion	Equals Long-Term Portion <u>March 31, 2009</u>
<u>Business-Type Activities</u>						
Compensated absences	\$ <u>16,510</u>	\$ <u>11,229</u>	\$ <u>-</u>	\$ <u>27,739</u>	\$ <u>-</u>	\$ <u>27,739</u>

11. Restricted Net Assets

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

12. Designations of Fund Equity

The Council has established "designations" of fund equity which are not legally required segregations, but have been established to indicate tentative plans for future financial utilization.

The Council reported the following type of designation at June 30, 2009:

Unreserved, Designated - Represents monies set aside by the Council for general reserve, capital and employee benefit-related purposes. Designated fund balance categories and balances at June 30, 2009 are as follows:

Employee benefits	\$ 81,039
Workers compensation	61,886
Post-employment benefits	108,793
Finance Committee reserve	34,810
Public officials' liability	64,384
Technology fund	218
Renovations fund	<u>21,192</u>
Total	\$ <u>372,322</u>

13. **Subsequent Events**

A. **Sale of Component Unit**

The Council sold their component unit, Hampshire Care, to the Masonic Health Systems of Massachusetts, Inc. (MHS) in July 2009 for \$ 4 million. The sale price was separated into \$ 3,640,000 for capital assets and \$ 360,000 for the state license to operate the facility. Until the license can be transferred from the Council, MHS agreed to operate the facility for a fixed management fee of \$ 360,000.

As part of the purchase and sale agreement, MHS purchased all of Hampshire Care's assets with the exception of cash. In addition, MHS assumed all of Hampshire Care's liabilities with the exception of certain benefits pursuant to the Hampshire County Personnel Policies (such as retirement and health insurance contributions) and four individually large worker's compensation claims. The Council estimates the cost of these claims to be approximately \$ 85,000 per year.

The purchase and sale agreement also requires the Council to reserve \$ 200,000 of the proceeds to be used to offset any Medicare claims adjustments that may result from Medicare cost report audits for the period up to the closing date. The reserve may be reduced to \$ 100,000 one year after the closing date and to zero after two years.

In addition to the required reserve, the Council voted to designate an additional \$ 2.8 million of the proceeds for various purposes including increases to several employee benefit trust funds and establishment of a Hampshire Care related contingency fund.

B. **Council Administrator**

The Council Administrator position was eliminated as of August 29, 2009.

14. **Commitments and Contingencies**

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

Electricity Program - In fiscal year 2007, the Council implemented a program to purchase and sell electricity to customers, which include both municipalities and commercial businesses. As part of this process, the Council obtained a supplier's license from the Department of Telecommunications and Energy

(DET) and became a member in the New England Power Pool (NEPool), an electricity industry association. Membership in NEPool is required in order to purchase electricity on the wholesale market. As of June 30, 2009, the Council had executed 81 contracts with area towns and businesses as electricity customers.

Under the electricity program, customers can choose either a "Real Time" or "Basic Rate" (profit sharing) billing option. Under the Real Time option, customers are billed based on cost plus an administrative fee (per kilowatt hour). Under the Basic Rate option, customers are billed the same rate that the customers' utility company would charge, but they would receive a share of any profits derived from their portion of the electricity operations. "Profit" for this purpose, is essentially calculated as: revenue attributable to Basic Rate customers, less their share of direct costs (based on kilowatts hours), less allocated overhead. Basic Rate customers receive a pro rata share (based on their contribution to revenue) of half the profit calculated on a fiscal year basis. For fiscal year 2009, the "profit" (as defined above) was determined to be \$ 407,908, half of which, \$ (203,954), is expected to be refunded to Basic Rate customers in fiscal year 2010 and has been accrued as electricity refunds payable in the accompanying financial statement.

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

15. Post Employment Health Care and Life Insurance Benefits

The Council has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the Council's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The Council has two participants currently eligible to receive benefits and the cost of benefits for the year ended June 30, 2009 was \$ 190.

16. Pension Plan

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

A. Plan Description

The Council contributes to the Hampshire County Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the State legislature. The System issues a publicly available financial report which can be obtained through the Hampshire County Retirement System, 99 Industrial Drive, Northampton, MA 01060.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Council is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Council are governed by Chapter 32 of the Massachusetts General Laws. The Council's contributions to the System for the years ended June 30, 2009, 2008, and 2007, were \$ 578,785, \$ 562,317, and \$ 526,703, respectively, which were equal to its annual required contributions for each of these years.

17. Group Insurance

The Council's Insurance Department administers a self-insurance program for health coverage through the Hampshire County Group Insurance Trust. The Council contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the Council is liable for up to \$ 150,000 and over \$ 2 million per covered person. A liability for unpaid claims at March 31, 2009 of \$ 2,823,199 has been recorded in the proprietary fund. This represents the Council's estimate of claims incurred but unpaid at year end, based on historical costs and claims paid subsequent to year end.

The Council's insurance plans are retrospectively rated policies. In other words, the Council contributes a level monthly premium which is adjusted (settled) quarterly for actual claims paid.

Changes in the aggregate liability for claims for the year ended March 31, 2009 are as follows:

Claims liability, April 1, 2008	\$ 2,464,536
Claims incurred/recognized	34,725,495
Claims paid in period	<u>(34,366,832)</u>
Claims liability, March 31, 2009	<u>\$ 2,823,199</u>

This liability is comprised of:

Accounts payable for settlement of the quarter ending March 31, 2009	\$ 488,400
Estimated incurred but not reported claims liability	<u>2,334,799</u>
	<u>\$ 2,823,199</u>

18. Risk Management

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

19. Beginning Fund Balance Reclassification

The Council's major governmental funds for fiscal year 2009, as defined by GASB Statement 34, have changed from the previous fiscal year.

Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/08 (as previously reported)	Reclassification	Fund Equity 6/30/08 (as restated)
General fund	\$ 918,349	\$ (713,220)	\$ 205,129
Electricity fund	-	712,684	712,684
Nonmajor funds	<u>142,164</u>	<u>536</u>	<u>142,700</u>
Total	<u>\$ 1,060,513</u>	<u>\$ -</u>	<u>\$ 1,060,513</u>